The Incorporated Accountants' Journal

The Official Organ of
The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL *is published monthly, on the first day of each month, at an Annual Subscription of* 12s. 6d., *which includes postage to all parts of the world. The price of a single copy is* 1s. 3d., *postage extra.*

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLIII MARCH, 1932 No. 6

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Professional Notes.

IN our advertising columns will be found an invitation by the Borough of Gillingham to qualified accountants to send in tenders for the audit of the accounts of the Corporation, and in so doing to show the fee which will be required for (*a*) a complete audit of the Council's Accounts, excepting those relative to Education, Housing (Assisted Scheme) and the Rating Authority, and (*b*) a partial audit of the accounts, and in the case of tenders for partial audit the extent of such audit must be shown therein. It does not appear to us that tenders showing the fee which will be required constitute a satisfactory method of obtaining the most efficient professional services in the interests of the taxpayers, as there must be a bias in favour of accepting the lowest tender apart from professional qualification and experience. We would suggest that a better plan would be for the Town Council to fix a proper fee for the audit and to invite applicants to send in their names for consideration, stating their qualifications. A committee could then make a selection of, say, three candidates for the final decision of the Town Council.

A full report of the paper read by Lord Plender before the Insurance Institute of London entitled "Some Observations on Company Balance Sheets," will be found in this issue, together with reports of further speeches delivered by Mr. Henry Morgan, President, and Mr. E. Cassleton Elliott, Vice-President, of the Society of Incorporated Accountants and Auditors, on Company Accounts and the provisions in the Companies Act relating to Accounts and Auditors.

In his address Lord Plender pointed out that his remarks before that audience must be of a more general character than would be the case if he were addressing members of his own profession, and he wished to avoid being too technical and to deal rather with general principles. It is right that we should mention this point, but we are precluded from making any review of Lord Plender's address and of the speeches of Mr. Morgan and Mr. Elliott for the reasons set forth in Professional Notes in the January issue of the *Incorporated Accountants' Journal.*

The address delivered at Sheffield before the joint meeting of Incorporated Accountants, Chartered Accountants, Chartered Secretaries, and members

of the Institute of Bankers, by Mr. E. Cassleton Elliott, should receive careful consideration from our readers. Mr. Elliott points out that one of the disturbing factors affecting the whole world is the serious reduction in the total volume of the world's trade, measured in imports and exports, and also the general and unforeseen fall in prices. This latter cause, he says, has disturbed every calculation upon which the world's organisation has been built up in the last twelve years.

After dealing with other contributing factors affecting industry, Mr. Elliott discusses rationalisation, and says that personally he prefers co-operation to rationalisation, because he feels that if a concern absorbs too many units too quickly it becomes overloaded, unwieldy and suffers from indigestion. On the other hand, if there is real co-operation in any particular industry, combined with exchange of ideas and information, competition, though not entirely eliminated, is not so fierce, and the individual trader or manufacturer is not entirely submerged. Mr. Elliott then proceeds to discuss Re-organisation, Efficiency and New Capital, and says that in his view the problem is to assist the smaller and moderate sized manufacturer and trader to a high state of efficiency, and with co-operation in the industry to help to produce and sell at competitive rates.

A curious question arose in the voluntary winding up of the Dunstable Portland Cement Company, Limited, regarding the meaning of the expression "surplus assets" mentioned in clause 5 of the company's Memorandum of Association. The clause in question provided as follows:—

> The preference shares shall be preferential as to repayment of capital and arrears of dividend up to the date of the company going into liquidation, and in a winding up to such a share of the surplus assets as shall provide for the holders of preference shares an amount per share equal to one-half of the amount per share provided for the holders of ordinary shares, but so that the total sum so provided for the holders of the preference shares shall not exceed five shillings per share, the preference shareholders being entitled to no further participation in the profits or assets.

The net assets available for distribution among the members of the company after providing for the debts and liabilities and all dividends due in respect of preference shares was £917,140. The issued preference capital amounted to £450,000, and there thus remained a balance of £467,140, which was not sufficient to repay the capital of the ordinary shareholders. The question that arose was whether the expression "surplus assets" referred to the amount available before providing for the repayment of the ordinary capital or whether it was the amount remaining over after discharging all the liabilities of the company and repaying the preference capital only.

Mr. Justice Eve, in giving judgment, said that the point was a difficult one because clause 5 of the Memorandum was most unfortunately drafted, but it was clear that what was contemplated was a fund in which both preference and ordinary shares might participate but not in the same proportions, the preference shareholders being entitled to only half the amount per share provided for the ordinary shareholders. The expression "surplus assets" must accordingly mean what was left after the payment of the debts of the company and the repayment of the whole of the preference and ordinary capital. There were therefore no surplus assets within the meaning of the clause.

The question of an executor's right of retainer came before the House of Lords last month in the case of *In re Cockell; Attorney-General* v. *Jackson*, and the previous decisions, first of Mr. Justice Clauson, and subsequently of a majority of the Court of Appeal (referred to in our Professional Notes of January, 1931), were reversed. The circumstances were that the estate was insolvent and the executrix had a debt owing to her for money lent which would have absorbed the whole of the available assets. The effect of the judgment was that to the extent to which the Crown's claim for taxes is given priority in Bankruptcy (that is for an amount not exceeding in the whole one year's assessment) it was a debt of higher degree than that of the executrix in this case, and that she could not therefore exercise her right of retainer in priority to such claim. The balance of any Crown debt in excess of that portion was held to be of the same degree as the debt of the executrix, who could therefore retain against such balance.

The decision of the House of Lords was unanimous, and Lord Atkin, in delivering judgment, said nothing would persuade him that it was consistent with the intention of the legislature, as deduced from the language of the statute, to give power to the administrator of an insolvent estate, before any administration order, to pay ordinary debts in preference to rates or taxes,

wages of servants or workmen's compensation. The reasoning by which this conclusion was arrived at is very involved, and is a typical example of the complexities of the law.

Lord Atkin expressed the further opinion that there were now only two, or possibly three, degrees of priority of debts—firstly, those which were by the Bankruptcy Act expressly given priority; secondly, those which were expressly directed to be paid *pari passu*; and, possibly, thirdly, those mentioned in sect. 36 of the Bankruptcy Act and in sect. 3 of the Partnership Act, the effect of the latter section being expressly retained in sect. 33 of the Bankruptcy Act.

Another case (*Consolidated London Properties, Limited*, v. *Johnstone*) also came before the House of Lords last month. This dealt with the question of the statutory allowance for repairs in the case of a house situated in the area to which the Valuation (Metropolis) Act, 1869, applied, and containing eight self-contained flats, each of which was assessed separately. There was only one entrance from the street, but each flat had a separate entrance from a common stairway, and was let to a separate tenant at a rent which included rates and certain other outgoings, but did not include external repairs. Under the provisions of Rule 8 (*c*) of No. VII of Schedule A the Crown sought to assess the property for the year 1926-27 in one sum, arrived at by adding together the separate assessments, while the appellants contended that each flat should be assessed separately and have a separate allowance for repairs.

The General Commissioners decided in favour of the company, but their ruling was reversed by Mr. Justice Rowlatt, whose decision was approved by the Court of Appeal. The House of Lords, however, have taken a different view. Lord Warrington, in giving judgment, pointed out that once the Valuation List had been passed it was conclusive, and there was no provision for an appeal by the Crown, as sect. 186 of the Income Tax Act, 1918, provided for an appeal by the taxpayer only, and the separate assessments must therefore stand. It should be borne in mind, however, that this decision will not be applicable in respect of periods subsequent to April 5th, 1931, as by sect. 31 of the Finance Act, 1930, the Valuation list is no longer conclusive and assessments in the administrative county of London are now made in the same way as elsewhere in England.

As regards the allowances for repairs the company contended that the actual outgoings were irrelevant, but their Lordships were unanimously of opinion that, for the purpose of ascertaining whether any allowances for repairs were due, the gross assessments must be compared with the net rents—that is, the rents after deduction of the actual outgoings allowable by law. In view of the separate assessments included in the Valuation list, it would be necessary to ascertain such outgoings in respect of each flat separately, and the case was accordingly sent back to the Commissioners to determine the allowances (if any) which were due on this basis.

It will be remembered that by the Companies Act, 1929, liquidators of companies whether in compulsory or voluntary liquidation were, for the first time, granted the right to disclaim onerous property subject to the leave of the Court. This right of disclaimer although in many ways analagous to that in bankruptcy, is not similar in every respect, because only in certain cases does a Trustee in Bankruptcy require to obtain the leave of the Court. There is also another broad distinction between bankruptcy and liquidation, because after a company goes into liquidation its property still remains vested in the company, while in the case of bankruptcy the property of the bankrupt vests in the Trustee, and the right of disclaimer was granted in the latter case to enable the Trustee to get rid of his personal liability.

The circumstances under which the Court will grant permission to disclaim in the case of a liquidation were discussed by Mr. Justice Maugham recently in the case of *re Katherine et Cie, Limited*. The view taken by his Lordship was that the Court in exercising its discretion is entitled to and should consider whether the rights of third parties would be seriously prejudiced in the event of the disclaimer being allowed. With regard to bankruptcy, the decisions on this aspect of the matter have been somewhat conflicting, but in any case liquidators should be quite safe because they must in all cases go to the Court for leave to disclaim.

The necessity of considering carefully the conditions under which documents are deposited with a bank for safe custody was forcibly illustrated in the case of *Decrusta (Parent) Company* v. *Lloyds Bank*, which came before Mr. Justice Talbot last month. An agreement had been arrived at between Mr. Cumming, the manager of the company, and a Mr. Wildi with regard

to a certain invention, and under the terms of the agreement the formula for making the invention was to be deposited with the Bank to be handed to Mr. Cumming or the company in case Mr. Wildi committed breaches of the agreement. The plaintiffs now claimed that breaches of the agreement had taken place, but the bank refused to give up the envelope containing the formula except on the joint authority of Mr. Cumming and Mr. Wildi.

The defence of the Bank was that the envelope was deposited on the joint authority of Mr. Cumming and Mr. Wildi, and could not be delivered except with the assent of both. His Lordship, in giving judgment, said that the Bank in acknowledging receipt of the envelope containing the formula, said they would hold it for Mr. Cumming and Mr. Wildi, but they made no mention of the agreement. In other words, the Bank made it clear that they would have nothing to do with the words which suggested that they might require to have regard to the terms of the agreement between the parties. In fact they were assailed by rival claims, both from Mr. Wildi and Mr. Cumming, and they told both of them the same thing. In doing so, said his Lordship, they were in an impregnable position.

In his speech at the annual meeting of the Midland Bank Mr. Reginald McKenna, the Chairman, made some interesting remarks on the subject of the gold standard. He said it was a mistake to suppose that the gold standard and a managed standard were mutually exclusive opposites. The widespread impression that the gold standard operated automatically was a complete delusion, because in fact it had always to be managed in some degree. It was because the gold standard had been left too free to take its own course that the world had suffered the ill effects that were now being experienced. It was not management but the lack of it which had caused the failure of the gold standard.

The practical alternative, in his view, was between a gold standard badly managed and a pure managed currency without gold. He considered that a gold standard well managed would be preferable to a pure managed currency, unless the latter were conducted on an international basis, which at the present time he regarded as hardly conceivable. The immediate choice before this country, therefore, was a soundly managed gold standard (which could only be secured by well ordered international action) or a managed standard without any metallic basis at all.

Speaking on behalf of the Government on the subject of the administration of transitional benefit in relation to unemployment, Sir Henry Betterton said that transitional benefit was not insurance but State maintenance, and no scheme which was to remain sound would survive the charges which that maintenance involved unless there was strict limitation. As an example he quoted the working of transitional benefit in the case of a man who paid £1 7s. 4d. in contributions and received £210 4s. 8d. in benefits. This, he said, was unfair to the small income tax payers, and the public assistance committees were to be commended for their administration of the means tests.

Complaint is made by solicitors of delay in the taxation of costs in the case of a successful action. Where a litigant recovers judgment with costs, his solicitor delivers his bill at the taxing office with as little delay as possible, but it is alleged that he is lucky if he obtains an appointment to tax within six weeks. Meantime an unscrupulous loser frequently gets rid of his seizable assets so that by the time the amount is settled there is nothing left upon which execution can be levied. In County Courts, on the other hand, it is stated that taxation of costs is carried through quickly. The suggestion is that rules should be made to provide that an order for judgment should contain provision for lodgment in Court forthwith by the unsuccessful party of a reasonable sum by way of security for costs.

In his report for the year 1930 on Trade Unions, the Chief Registrar of Friendly Societies points out that the Trade Unions Acts do not require unions to have their accounts audited by professional accountants, and generally speaking the unions prefer to choose their auditors from among their own members, but in view of the inaccuracy of the annual returns certified by these auditors, the Registrar has in many instances considered it his duty to recommend the employment of professional auditors.

Amongst the examples given to illustrate the inadequacy of audits performed by unqualified persons the Registrar mentions one case where a professional accountant was appointed to investigate the books, when it was found that, through the incorrect preparation of accounts during the past seven years, the amount shown in the annual returns as cash at bank was in excess of the correct figure. The result was that it became necessary to adjust the assets of the union by writing them down by over £350, the

funds having been inflated by the fact that the non-professional auditors who had acted previously did not realise the necessity of reconciling the bank pass book with the cash book in respect of unpresented cheques.

The number of trade unions upon the register at the end of 1929 was 472 with a membership of 3,778,000, as compared with 481 unions at the end of the preceding year with a membership of 3,764,000. The corresponding figures for the year 1920, when the membership of the unions reached its peak, were 557 unions with a membership of 6,928,000.

The Comptroller and Auditor-General in his report for the year ended March 31st, 1931, gives some information with regard to the losses in the collection of Income Tax and Excess Profits Duty. The total amount remitted was £210,000, mainly on account of Income Tax. In addition, sums less than the full amounts due were accepted in 140 special cases, amounting together to £2,593,000. This was owing to the financial difficulties of the parties concerned and, in the opinion of the Auditor-General, the circumstances were in conformity with the principle that the sums accepted were greater than could have been recovered by legal proceedings. A number of other settlements had been made by taxpayers who had admitted irregularities in past returns, and in accordance with the policy announced by the Board of Inland Revenue in July, 1923, the taxpayers concerned had not been prosecuted. In other cases where the taxpayers had not conformed to the terms of the indemnity as then set forth, prosecutions had been instituted.

The total amount of Excess Profits Duty remaining in assessment but unpaid at the beginning of October, 1931, was £16,000,000, of which £9,600,000 had been agreed and was waiting collection. The corresponding amount remaining in assessment a year previously was £42,000,000, so that during the twelve months considerable progress appears to have been made in coming to a settlement with regard to these long outstanding claims.

The President of the Law Society, at a special general meeting held last month stated that Sir John Withers, whose Bill dealing with trust funds in the hands of solicitors was read a second time in the House of Commons last year, had now submitted to the Law Society a Bill to empower the council, with the concurrence of the Master of the Rolls, to make rules for the professional practice, conduct and discipline of solicitors, including the opening and keeping by solicitors of accounts at banks into which they would have to pay all money received or held by them on account of clients, and in deference to the views of the council Sir John had dropped his original proposal for a compulsory audit, conditional upon the production of a statutory declaration that the applicant's accounts had been kept in accordance with the rules, or on the production of a certificate by a qualified accountant to the same effect. The Bill had been submitted by the council to the provincial Law Societies and would be further considered when their views were received. Some of the members of the Law Society took strong objection to the suggested statutory declaration, which was described by one member as equivalent to a solicitor making an oath that he had been an honest man. On the other hand, at the conclusion of the proceedings, the President stated that the Law Society still intend to bring their own Bill again before Parliament.

AUDITORS' DUTIES AND LIABILITIES.

IN the Chancery Division a case of considerable importance in relation to the duties and liabilities of auditors of public companies came before Mr. Justice Bennett. The evidence was completed in November last and reported in our December issue, but his Lordship has only recently delivered his reserved judgment, which we publish this month. The action was brought on a misfeasance summons by Mr. Sydney Edwin Smith, Incorporated Accountant, the liquidator of the Westminster Road Construction and Engineering Company, Limited, who claimed from the directors, manager and auditors of the company repayment of £1,246, being part of a dividend declared in respect of the period ended March 31st, 1928, the allegation being that this amount was paid out of capital. There was also a further claim of £345 in respect of a commission on profits paid to one of the directors under his agreement with the company, and other claims against certain of the defendants other than the auditors.

The case for the liquidator was that there had been no profits out of which the dividend could be paid, and that a profit of £8,458 was shown in the balance sheet by understating the amount of the company's liabilities and overstating the value of the work in progress. It was alleged that in passing the accounts the directors had failed to exercise their judgment as commercial men, and that the auditors were negligent in not

discovering the over-valuation of the work in progress and in not examining the company's invoices after the date to which the accounts were made up for the purpose of ascertaining the amount of the reinstatement liabilities which it was admitted were not recorded in the company's books. It was contended that the auditors should have been put upon inquiry by reason of the large amount of profit on a share capital of about £820. The liquidator admitted that it was not the general practice among auditors to examine the invoices after the date of the accounts and down to the time of certifying the balance sheet, but that in this case the incomplete state of the company's books, the nature of the invoices which had actually passed through the hands of the auditors, and the general circumstances made it incumbent upon the auditors to do so.

Mr. H. S. King, F.C.A., giving evidence on behalf of the liquidator, said he had never known a case in which the auditor did not check the work in progress. He agreed that there were no costing records which could be described as a "system," but there was material by which the auditors could have checked the figures. He was also of opinion that the auditors in certifying the balance sheet should have discovered that the figure appearing in the profit and loss account in respect of reinstatement charges was inaccurate.

The work of preparing the balance sheet and profit and loss account and of conducting the audit was entrusted by Messrs. Sidney Cronk and Co. to Mr. Arthur Charles Buckle, a young man of 21 years of age, who had passed his Final examination with honours in November, 1927, and Mr. Sidney Cronk (the sole partner in the firm of auditors) said he had left the work entirely to him. Mr. Buckle in cross-examination said he appreciated that reinstatements were necessary but that he relied upon the certificate of Mr. Macquire, the manager and secretary of the company, and he understood that Mr. Macquire had allowed for any liability in arriving at the valuation of the work in progress. It appeared that Mr. Buckle had done certain work on the accounts for a subsequent period (the six months to September, 1928), but when asked whether he then noticed any reinstatement entries relating to the previous month of March he said that the figures had been checked by the clerk who was assisting him and he did not go through them a second time.

Mr. Gover, K.C., in summing up the case for Messrs. Sidney Cronk & Co., submitted that as regards the duties of an auditor :—

He was not bound to exercise more than reasonable care and skill even in a case of suspicion, and what was reasonable care and skill depended on the circumstances of each particular case.

He was expected to be a watchdog but not a bloodhound.

His primary duty was to be performed by an examination of the books of the company, and he was not responsible for liabilities or other matters not in the books and not reasonably brought to his notice in any other way.

He was entitled to rely on information or explanations obtained from the appropriate and responsible official of the company unless there was reason to doubt their accuracy.

On any information or explanation of value obtained from such appropriate and responsible official he was not bound to take any further step to verify the matter even although known means of doing so existed, and

It was no part of his duty to go through the minutes, letter books, or files of documents of the company for the purpose of seeing whether there might be evidence of liabilities or other material matters not disclosed in the books, or any information or explanation given.

He accordingly contended that there was no obligation upon Mr. Buckle to make a roving expedition through the files of the company to see if there was anything wrong.

In delivering judgment, Mr. Justice Bennett said that there was no charge of dishonesty against any of the respondents, and having seen all of them in the box and heard their evidence he was satisfied that, with respect to all the charges made against them, they had acted honestly and in good faith. The liquidator had satisfied him that instead of there having been a profit of £3,458 there had been a profit of only £297, and that the balance sheet did not therefore disclose a true and accurate statement of the company's position, which was due to the failure on the part of the auditor to perform his statutory duty, and Mr. Cronk was responsible for the failure of his servant Mr. Buckle. His Lordship added that an auditor's duty with regard to the ascertaining of unrecorded liabilities must depend upon the facts of each particular case and must be determined by the nature of the business carried on and the practice of the persons or bodies with whom the company did business, as regards sending in their invoices. If a company

was incurring liabilities of a particular kind, the invoices for which would not be received until after the date to which the accounts were made up, it became the auditor's duty to make specific inquiries as to the existence of such liabilities and to go through the invoice files of the company in order to see that no liabilities had been omitted. He was satisfied that no experienced auditor would have failed to ascertain the existence of the liabilities which had been omitted from the balance sheet, and he saw no ground for thinking that if Mr. Buckle had inquired for the reinstatement liabilities he would have failed to get information respecting them. His view was that Mr. Buckle through lack of experience failed to appreciate the bearing of these liabilities upon the profits. He therefore came to the conclusion that the auditor was guilty of negligence in checking the value of the work in progress on March 31st, 1928, and that the liquidator was entitled to recover against him the money of the company wrongly paid away, together with interest and costs.

With regard to the directors, his Lordship said they all believed that the balance sheet truly represented the position of the company. He regarded them all as honest men and could not hold them responsible for paying dividends on the faith of a balance sheet certified as accurate by a professional auditor who was a Fellow of the Institute of Chartered Accountants.

On the question of costs the liquidator was ordered to pay the costs of the respondents who had successfully resisted the proceedings taken against them, and recoup himself if he could out of the assets of the company.

It will be observed that Mr. Justice Bennett in the course of his judgment stated that in dealing with the question of liabilities which were not recorded in the company's books each case must be considered upon its own particular facts, and on the facts in this case as disclosed by the evidence, we think the general view in the accountancy profession will be that so far as the auditor was concerned it would have been difficult for his Lordship to arrive at any other conclusion than that there had been a lack of reasonable skill and insight. On the other hand it will probably be considered that the directors and manager were fortunate in escaping liability. In a small company with a capital of some £800 or £900 it does seem somewhat strange that neither the directors nor the manager should have had their suspicion aroused by the fact that the accounts, as prepared, showed a profit of over £3,400, whereas the real profit (as subsequently ascertained by the Court) was only about £800.

WHAT CONSTITUTES "RECEIPT AND ACCEPTANCE" OF GOODS?

FAMILIARITY is apt to breed contempt—in the sphere of legal as of other branches of knowledge. This is probably the explanation of the insufficient knowledge often displayed with regard to points arising out of so well trodden a path as that of the Sale of Goods Act, 1893. Few sections of that great, lucid code are so familiar as sect. 4, which replaces sect. 17 of the Statute of Frauds. Nevertheless, cases are constantly arising which show that its well worn phraseology has ceased to make adequate impression upon the minds of merchants affected by it, or even of their professional advisers. Thus the first kind of evidence required by the section to render a contract for the sale of goods enforceable by action at law is not always fully comprehended.

The section referred to declares that no action may be brought to enforce a contract for sale of goods (the validity of which is not in question) unless one or other of four specified conditions is satisfied. The object of the Statute of Frauds was to prevent fraudulent evasion of contractual obligations entered into. That object remains under the provisions of the statute of 1893. When that is clearly understood the reasonableness of the statutory requirements becomes apparent. Those requirements relate, as to three of them, to questions of evidence. That is to say, evidence which will satisfy the Court that a contract, the existence of which is disputed, was really made. The fourth requirement exempts from the scope of the section cases where the goods alleged to have been the subject matter of a bargain of sale and purchase are of the value of less than ten pounds. In other words, the statute would have been too rigorous had it been made applicable to ordinary contracts of sale and purchase relating to small transactions. The essential object of the section remains, therefore, to provide adequate testimony of the conclusion of the alleged bargain. Those three requirements as to evidence are set out in the section in these terms:—Action may not be brought unless:

(*a*) "the buyer shall accept part of the goods so sold, and actually receive the same";

(*b*) "or give something in earnest to bind the contract, or in part payment";

(*c*) "or unless some note or memorandum in writing of the contract be made and signed by the party to be charged or his agent in that behalf."

These three categories of evidence vary in practical utility. The last mentioned is, perhaps, the best, in that it is most conclusive. For *littera scripta manet*—the written word remains and speaks out loud and clear. The second may be said to be satisfactory, in that even if the buyer repudiates the bargain the seller has received at any rate something of solid value as consolation, probably the best consolation to a merchant—hard cash. It is the first category which is, in many ways, the least satisfactory, since it leaves the way open to considerable doubt and dispute.

When has a buyer "accepted"? The question has given rise to much litigation and produced considerable legal lore. Even more difficulties have been produced by the term "actually receive." What is "actual receipt" within the meaning of the Act? Many of these difficulties have been occasioned by failure to note that "acceptance" and "receipt" are both required. Both expressions are found within the one category. They are not alternatives. If they were, the total number of categories (of evidence) would be four, not three.

It is obvious that acceptance and receipt are by no means one and the same thing. A purchaser may receive goods of the class bargained for, but may reject, and not accept, them—say, on the grounds of deficiency in quantity or quality. Contrariwise, a purchaser may accept goods, in the sense that he pays against documents on being notified that they have been forwarded by the seller to him, *e.g.*, in care of a carrier or wharfinger, and yet he may never actually receive them. They may be lost or stolen *en route*. As it was put by the Court in *Hunt* v. *Hecht* (1853), receipt is possibly evidence of acceptance; it is not absolute proof; and it is but one of many kinds of proof possible.

In *Marshall* v. *Green* (1875), the Judges laid down in clear terms general rules which help considerably to decide in any particular case whether there has been both acceptance and actual receipt. That decision rests with the jury, for it is a question of fact. The facts in *Marshall's* case were that the defendant agreed to buy from the plaintiff a number of specified trees growing on land occupied by the plaintiff. The defendant agreed that he would cut them down and take them away as soon as possible. (A sale of this kind is one relating to goods, and not to an interest in land.) He cut some of them down, and agreed to sell them to a third party. Meanwhile, the plaintiff had changed his mind; he told the defendant that he did not consider that there was any binding sale, and forbade him to cut down the rest of the trees. The defendant, however, persisted in his view that a definite contract had been made, and in pursuance of it continued to go on the plaintiff's land for the purpose of cutting down the remainder of the trees which he said had been sold to him. Thereupon the plaintiff sued him for trespass. In order to succeed in that action he had to show that the defendant had no contract with him. The Court held that here there was ample evidence of both acceptance and actual receipt of part of the goods.

The following judicial dicta were delivered:—

1. Actual physical or manual receipt is not essential.

2. There is sufficient acceptance and actual receipt to satisfy the statute where a buyer has done anything with or to the goods which shows an intention on his part to deal with them as owner, without the seller interfering to prevent him.

3. In the case of large or bulky articles actual physical receipt might well be impracticable. The law, therefore, reasonably says that acceptance and receipt of the "indicia of title" is adequate. Merchandise is, in fact, normally transferred by the transfer of documentary indications of title.

4. Even if the buyer does not take the goods away from the seller's premises it is sufficient if he has had them "put on one side" or marked for him.

It was pointed out in *Elmore* v. *Stone* (1809) and reaffirmed in *Dublin City Distillery, Limited,* v. *Doherty* (1914) by the House of Lords, that physical possession may quite easily be retained by the seller and yet the buyer may have done all that the statute requires to evidence acceptance and actual receipt by him. Thus, in the 1809 case, the alleged seller was a horse dealer and also proprietor of livery stables. The alleged buyer acquired a horse from the alleged seller but did not take it away. Instead, he left it at livery in the stables. It was held that there was quite sufficient evidence of acceptance and actual receipt by the alleged buyer.

The proposition was put in general terms in the 1914 case thus: If, after completion of a sale, the seller agrees to retain physical possession, but in another character, the contract of sale is concluded sufficiently clearly to satisfy the statute. Hence, a seller of a horse, after completion of the sale, may well by agreement with the buyer change his character, so as to

cease to be merely a seller and to become instead a bailee. But the fact that he has now become a bailee does not invalidate the buyer's assertion that he was previously a seller.

OBSOLESCENCE ALLOWANCES.

The following replies have been received from the Board of Inland Revenue under date February 10th, to certain questions put to the Board by the Association of British Chambers of Commerce on matters connected with obsolescence allowances. In reply to the questions as set out below, the Board state that it will of course be appreciated that the question whether in a particular case a claim for allowance is admissible, and, if it is, the amount of the allowance, will depend on the facts and figures of the case.

Question 1.—Would obsolescence allowance be given in cases where, notwithstanding a change in the type of machinery used, or in the method of production or the type of goods produced or services rendered, the essential underlying purpose of the business remains the same, *e.g.*, a change from steam to electricity, or from electricity to Diesel engines as a source of power, a change from electric trams to petrol or trolley buses, a change from horse-drawn delivery vans to motor vans?

Answer.—In the statement made by the Chairman of the Board on December 9th last the example was given of a manufacturer who has hitherto had a generating plant for the purpose of supplying electric current to his factory, and who discards that plant and instals new plant with a view to taking supplies from one of the large electricity undertakings. Similar consideration would apply to the case of a manufacturer (2) who has hitherto had a steam power plant and who instals in its place plant for supplying his factory with power in the form of electric current, or (*b*) who replaces electric power plant by Diesel engines as a source of power. Further, a claim for an allowance under Rule 7 of Cases I and II of Schedule D would, generally speaking, be competent by reference to the replacement of electric trams by petrol or trolley buses. The replacement of horse vehicles by motor vehicles was dealt with in paragraph 2 of the Chairman's statement of December 9th.

Question 2.—Would obsolescence allowance be given in cases where a special plant is scrapped because the special purpose for which such plant has been installed has failed, *e.g.*, where a large day load is lost to an electricity supply company by reason of the substitution of petrol buses for trams in its district?

Answer.—The second question appears to relate to cases in which plant is scrapped without being in any way replaced. In such cases the terms of Rule 7 would not admit of an allowance being given under that rule.

Question 3.—Would obsolescence allowance be granted in cases where plant, vehicles, ships, machinery, &c., are superseded by other plant, &c., notwithstanding that the plant, vehicles, ships, machinery, &c., could still be used for the original purposes for which they were required, though giving less efficient results than the new plant, &c.?

Answer.—A claim, otherwise admissible, for an obsolescence allowance on the replacement of plant and machinery by more efficient plant or machinery would not be opposed merely because the old plant was still capable of being used, or because similar plant had not been generally discarded by other traders in the same industry.

MISFEASANCE SUMMONS AGAINST DIRECTORS AND AUDITOR.

(*The report of the Evidence appeared in our December issue.*)

This case came before Mr. Justice Bennett in the Chancery Division on a misfeasance summons brought by Mr. Sydney Edwin Smith, Incorporated Accountant, as liquidator of the Westminster Road Construction and Engineering Company, Limited, against Mr. G. Offer, Mr. A. L. Stevens, Mr. H. F. Hunt, and Mr. B. W. Shaw, directors of the company; Mr. S. M. Macquire, manager and secretary; and Mr. Sidney Cronk, of Messrs. Sidney Cronk & Co., Chartered Accountants, the company's auditors, arising out of a dividend declared by the company for the year ended March 31st, 1928. The hearing of the summons occupied fifteen days last term, but judgment has only recently been given.

The case for the liquidator was that there had been no profits out of which the dividend could be paid, and that a profit of £3,458 was shown in the balance sheet by understating the amount of the company's liabilities and overstating the value of the work in progress. He alleged breaches of duty and negligence on the part of the respondents and claimed repayment by them of the capital of the company improperly paid away.

Speeches of Counsel.

Mr. Lionel Cohen, K.C., summing up the case for Mr. Offer and Mr. Hunt, submitted that the principle of the general application with regard to the duties of directors was laid down by Mr. (now Lord) Justice Romer in the *City Equitable* case, where he stated that a director in the exercise of his duties need not exhibit a greater degree of skill than could be reasonably expected from a person of his knowledge and experience. He agreed that the directors were responsible for the employment of a competent staff, but contended that having fulfilled that obligation and installed a proper system of book-keeping, &c., and having the accounts audited by qualified accountants, they could not be held to be liable in respect of any negligence on the part of those employed.

Continuing his argument, Mr. Lionel Cohen contended that with regard to the valuation of work in progress it was not part of the duty of the directors to adopt the attitude of hostile examiner towards Mr. Macquire, in whom they had every confidence.

Mr. Justice Bennett: Not necessarily to cross-examine him, but £6,583 was a fairly substantial sum. They have all said that they realised its importance, and I can quite imagine a good many questions they could have put with regard to it. It seems to me to lead to the conclusion that they did not realise their responsibilities or that they cannot be under any obligation in the matter. I do not know.

Mr. Cohen: If the law goes to the extent your Lordship indicates it would cast such a burden upon directors that they would not act.

Mr. Justice Bennett: I am not so sure. What did the board know on June 27th and what did they consider?

Mr. Cohen said that the work done depended upon measurements and the board being unable to check them themselves they were entitled to rely upon the assurance of the only person who could say whether the figure was right or not. They did all they possibly could. The company was started at the suggestion of Mr. Macquire, and the whole business evolved around him. Mr. Offer was entitled to rely upon Mr. Macquire's certificate and Mr. Buckle's satisfaction with that certificate.

Mr. Justice Bennett: Mr. Buckle was a very young man to conduct the audit. Does it not make you shudder

when you think of what you did during your first few years at the Bar?

Mr. Cohen: I should have shuddered still more if I had been an accountant, but we must remember that Mr. Buckle had previously spent four years in another office, and that he passed his Final examination with high honours.

Mr. Justice Bennett: All this trouble has arisen through the omission to ask questions about the figures in the balance sheet which ought to have been asked. Had the directors asked them, they would have discovered what the liquidator discovered.

Mr. Cohen: Your Lordship is assuming in all these directors the possession of a trained mind.

Mr. Justice Bennett: If they are not bound to ask questions, I agree that there may be no case against them.

Mr. Cohen: It is clearly not their duty to do the acts which enabled the liquidator to find out what was wrong.

Mr. Justice Bennett: It is a very curious case. Everybody seems perfectly honest—there is no doubt whatever about that—but instead of there being a profit of over £3,000 there is a substantial loss, and it is said this can happen although the auditors do their work and the directors do their work. I do not believe it. It is inconceivable to me, although I am not prepared yet to say who is responsible.

Mr. Cohen submitted that the directors were entitled to rely upon the auditors and Mr. Macquire.

Mr. Justice Bennett: They are the people you blame? —Yes.

Mr. Stevens, addressing the Court, pleaded that he had no reason to doubt the assurances given with respect to the accuracy of the figures, and that he accepted them in perfect good faith.

Mr. Davis submitted on behalf of Mr. Macquire that the payments complained of did not flow from anything he did, and that he was entitled to rely upon the auditors and Mr. Offer. Mr. Buckle, said Counsel, was put on a task which was beyond him in his then state of knowledge, and was guilty of obvious acts of negligence which he would never commit again. The persons responsible for the distribution of this money on the basis of a profit were the auditors primarily, and secondly Mr. Offer, to whom Mr. Macquire looked in all accountancy matters.

Mr. Justice Bennett: If Mr. Macquire carelessly gives a certificate which includes a hopelessly wrong valuation upon which people act in good faith, is he not to suffer for his carelessness?

Mr. Davis: Not if there was machinery set up in the office to check the figures, as was the case here. The negligence that caused the payments was that of the auditors, and of Mr. Offer, who was an accountant. Mr. Macquire furnished the information, and it was for them to check the accounts. Mr. Macquire knew nothing of accountancy, and could not check their figures. The board would never have declared the dividend on the figures of Mr. Macquire without the assurance of the auditors and Mr. Offer that they were accurate.

Mr. Justice Bennett: He took no steps to see that the figures he certified were accurate?

Mr. Davis: The details he gave had been in the hands of the auditors for a fortnight. Was he to go to another firm of accountants to check the auditors?

Mr. Justice Bennett: No.

Mr. Davis went on to assert that "the carelessness of the auditors had been so gross that it could not possibly have been contemplated by a man in the position of Mr. Macquire."

Mr. Justice Bennett pointed out that in his figures of work in progress, Mr. Macquire made no allowance for liabilities.

Mr. Davis replied that this was surely the accountant's side of the business.

His Lordship observed that it was Mr. Macquire's delinquencies they were now considering.

Mr. Davis urged that all Mr. Macquire did was merely to put forward a summary at sale prices and leave the auditors to deal with the accounts. The auditors never asked for a list of liabilities, and did not discover the omission of reinstatement liabilities from the balance sheet until after these proceedings started.

Mr. Justice Bennett: That will not help you if you did not perform your duties.

Mr. Davis proceeded to contend that even if Mr. Macquire had been negligent, it was not the cause of this loss.

Mr. Reid, for Mr. Shaw, said that he was merely engaged to assist Mr. Macquire in the outside work, and asked that the summons against him should be dismissed with costs.

Mr. Justice Bennett: He may have been unwise in becoming a director, which involved him in responsibility.

Mr. Gover, K.C., summing up the case for Messrs. Sidney Cronk & Co., said that so far as they were concerned, he did not think it necessary to apologise for the extraordinary length the case had taken, as it was not simply a matter of money liability either of Mr. Cronk or Mr. Buckle, but in both cases, and in particular that of Mr. Buckle, it was a question of professional reputation. He would have to look at the authorities to show what view the Courts had taken of the responsibilities and liabilities of auditors. They had the right of access to the books, accounts and vouchers of the company, and were entitled to require from the directors and officials of the company such information and explanations as might be necessary for the performance of their duties, and having obtained these they had to state that the balance sheet exhibited a true and accurate account to the best of their knowledge and belief of the financial position of the company. It was no part of their duty to give advice to directors or shareholders as to what they ought to do, and they were not assurers of the accuracy of the books. They were not bound to do more than exercise reasonable care and skill, and were not bound to be suspicious where there were no circumstances to arouse suspicion. It was not part of their duty to take stock, and in this case Mr. Buckle not only had the certificate of Mr. Macquire, but also his assurance that there were no materials by which his figures could be verified except by a man with technical knowledge of G.P.O. contracts. It was not the duty of Mr. Buckle to assume that Mr. Macquire was recklessly careless, while on the other hand he was entitled to rely on the accuracy of Mr. Macquire as an expert.

Mr. Gover cited various authorities and submitted that the following proposals as to the duty of an auditor in a case like this were fairly deduceable:—

(1) It was his statutory duty in 1928—it is slightly different now—to satisfy himself that his report on the balance sheet was properly drawn up so as to show a true and accurate view of the company's affairs according to the best of his information and as shown by the books of the company.

(2) He was not bound to exercise more than reasonable care and skill even in a case of suspicion, and what was reasonable care and skill depended on the circumstances of each particular case.

(3) He was expected to be a watchdog but not a bloodhound, and still less a clairvoyant. (Laughter.)

(4) His primary duty was to be performed by an examination of the books of the company and he was not responsible for liabilities or other matters not in the books and not reasonably brought to his notice in any other way.

(5) He was entitled to rely on information or explanations obtained from the appropriate and responsible official of the company unless there was reason to doubt their accuracy.

(6) On any information or explanation of value obtained from such appropriate and responsible official he was not bound to take any further step to verify the matter even although known means of doing so existed, and

(7) It was no part of his duty to go through the minutes, letter books, or files of documents of the company for the purpose of seeing whether there might be evidence of liabilities or other material matters not disclosed in the books, or any information or explanation given.

Mr. Gover proceeded to read the evidence and on the facts submitted that Mr. Buckle, who was only 21 at the time (the first occasion on which his age was given), but a very able young man, had done everything in the matter of investigation which it was possible for him to do in the conduct of this audit. The books at the time were in a hopeless state of confusion, the costing system being admittedly useless, and Mr. Buckle had to rely upon the figures of Mr. Macquire and his assurances, and, more important still, his certificate, that they were accurate. There was no obligation upon Mr. Buckle to make a roving or fishing expedition on the files to see if there was anything wrong.

Mr. Justice Bennett suggested that Mr. Buckle had failed to detect things that a man of greater experience would have discovered.

Mr. Gover: He failed to be a bloodhound?

Mr. Justice Bennett: Oh, no: an old watchdog would have discovered them.

Mr. Gover: In a chaotic office.

Mr. Justice Bennett said he thought that Mr. Cronk was wrong in leaving the audit to such a young man.

Mr. Spens, K.C., in his final speech for the liquidator, said that his case divided itself into two portions. In the first place he had to satisfy the Court that the dividend had been paid out of capital, and then he had to satisfy the Court that the respondents had respectively been guilty of such breaches of duty as led to the payment, and consequently were responsible to make good to the assets the money improperly paid away. The respondents had strenuously resisted the case on both grounds, but in his submission the liquidator had proved up to the hilt that the dividend was paid out of capital. With regard to the directors his contention was that if they failed to exercise their judgment as commercial or mercantile men they were liable, and in this case none of the directors exercised any judgment whatever in passing the accounts.

Mr. Justice Bennett: Can they not rely upon an experienced accountant and honest auditors? What else have they got to do?

Mr. Spens: They must go through the accounts and consider whether the results were likely and probable in view of what they knew. They cannot merely accept the accounts without exercising any sort of judgment. They were put upon inquiry when they saw such a large profit on so small a capital. Between them they had all the knowledge required, and had one single intelligent question been asked the whole accounts would have collapsed. As to the auditors, Mr. Spens said that in the same way the amount of the profit should have put Mr. Buckle on inquiry at once, and it was in the light of that he asked the Court to judge the insufficiency and ineffectiveness of the investigations.

Mr. Justice Bennett reserved judgment, stating that he hoped to deliver it shortly.

Judgment.

On the 5th of last month Mr. Justice Bennett delivered his reserved judgment. He said the liquidator had proved to his satisfaction that the company did not earn a profit of £3,458 during the period in question. No charge of dishonesty was made against any of the respondents, and having seen all of them in the box and heard their evidence he was satisfied that with respect to all the charges made against them in these proceedings all the respondents acted honestly and in good faith. It was the common practice, he was told, in the case of small companies for the auditor of the company not merely to act as auditor and to certify the accuracy of the balance sheet but also to prepare it, and that was what was done in this case. Mr. Cronk, personally, took no part either in preparing the balance sheet or in auditing it, but he was, of course, responsible as the company's auditor for what was done by his servant in connection with the balance sheet. The task of preparing the balance sheet and profit and loss account and of auditing the former was entrusted to Mr. Buckle, who was then 21. He had entered Mr. Cronk's employ in October, 1927, had passed his final examination for admission to the Institute of Chartered Accountants in November, 1927, and had been admitted as an Associate member of the Institute in March, 1928. It was upon the shoulders of this young man, without any supervision and with but very little assistance, that the whole burden of preparing the company's balance sheet and profit and loss account and auditing the balance sheet fell. The accounts in question were considered by the directors at a board meeting on June 27th, 1928, and passed. The liquidator had satisfied him that instead of there having been a profit of £3,458, there had been a profit only of £297, and that the balance sheet did not therefore disclose a true and accurate statement of the company's position. Was this erroneous certificate due to failure on the part of the auditor to perform his statutory duty? The answer, in his Lordship's judgment, was in the affirmative, and Mr. Cronk was responsible for the failure of his servant, Mr. Buckle. It was settled law that an auditor did not discharge his duty if he merely saw that the balance sheet accurately represented what was shown by the books on the material date. His duty with regard to the ascertaining of unrecorded liabilities must depend upon the facts of each particular case and must be determined by the nature of the business carried on, and the practice of the persons or bodies with whom the company did business of sending in their invoices. If the auditor found that a company in the course of its business was incurring liabilities of a particular kind and that the creditors sent in their invoices after an interval and that liabilities of the kind in question must have been incurred during the accountancy period under audit and that when he was making his audit a sufficient time had not elapsed for the invoices relating to such liabilities to have been received and recorded in the company's books, it became his duty to make specific inquiries as to the existence of such liabilities, and also, before he signed a certificate as to the accuracy of the balance sheet, to go through the invoice files of the company in order to see

that no invoices relating to liabilities had been omitted. The evidence had established to his satisfaction that no experienced auditor would have failed to ascertain the existence of the liabilities omitted from this balance sheet. It was the auditor's duty to make specific inquiries as regarded liabilities for reinstatement work incurred before March 31st. Mr. Buckle made none, and he never examined the invoice files after April 30th. His Lordship said he saw no ground for thinking that if Mr. Buckle had inquired for outstanding reinstatement liabilities he would not have received accurate information respecting them. The real fact was, he believed, that Mr. Buckle, through lack of experience, failed to appreciate the bearing the reinstatement liabilities had upon profits, and thought it was not necessary to have regard to any such liabilities not entered in the books before March 31st. With regard to the over valuation of work in progress the expert evidence was that it was the duty of the auditor to check the figures at which work in progress was brought into the balance sheet. It was the duty of Mr. Buckle to satisfy himself that nothing was included in the work valued as in progress on March 31st which was, in fact, done after that date. He had also to satisfy himself that all expenses or liabilities incurred by the company in connection with the work so valued had been brought into account. The check made by Mr. Buckle was useless. His Lordship said he was satisfied on the evidence that there was ample material in the possession of the company on June 18th, 1928, with which Mr. Buckle could have tested the accuracy of the figures given him. Therefore he came to the conclusion that the auditor was guilty of negligence in checking the value of work in progress on March 31st, 1928, and was responsible for certifying as accurate the balance sheet in question.

With regard to the directors, his Lordship said that they all believed that the balance sheet truly represented the position of the company. He regarded all of them as honest men and could not hold them responsible for paying dividends on the faith of a balance sheet certified as accurate by Mr. Sidney Cronk, who was a Fellow of the Institute of Chartered Accountants. Mr. Macquire would be responsible if it had been his duty to make the statement as to the work in progress. The directors had not imposed any such duty upon him and the law did not impose any duty upon him.

The liquidator was entitled to recover against Mr. Cronk the money of the company wrongly paid away with interest and costs, and the summons would be dismissed as against all the other respondents with costs.

The question of how the costs of the directors and Mr. Macquire should be paid was then discussed. After hearing the arguments of Counsel, Mr. Justice Bennett said it was now the settled practice that the liquidator in such cases must pay the costs of the respondents who had successfully resisted the proceedings taken against them, and recoup himself if he could out of the assets of the company, and he must make an order accordingly. This might have the effect of deterring liquidators from taking proceedings against persons whom they considered responsible in part for the misfeasance, but he could not help it.

It was stated that the assets of the company would show a deficiency.

Mr. Henry J. Burgess, C.C., F.S.A.A., Chairman of the Trustees of the Incorporated Accountants' Benevolent Fund, has been appointed Chairman of the Central Markets Committee of the Corporation of London.

Some Observations on Company Balance Sheets.

A PAPER read before the Insurance Institute of London by

LORD PLENDER, G.B.E., LL.D., F.C.A.

LORD PLENDER said: Questions concerning the administration of public companies and their accounts have received during the past few years more than their usual share of attention. This can, I think, be attributed in no small measure to a number of recent happenings, some of which have created a feeling of considerable uneasiness in the minds of investors and the public generally. Among these events may be mentioned the heavy losses sustained by subscribers to speculative issues during a period of feverish Stock Exchange activity; reconstructions involving drastic reductions of capital; and the revelations arising out of proceedings instituted by the Public Prosecutor for fraud and misrepresentation in connection with two groups of companies.

When the investing public has lost large sums of money, feelings of irritation and resentment not unnaturally arise. It searches for scapegoats—not always in the right quarter. It calls for changes in company legislation—without considering whether the absence of legislation may or may not be responsible for what has occurred. In short, an atmosphere is created which is anything but conducive to a calm and logical review of the situation.

I do not suggest that we have no lessons to learn from these unfortunate experiences, or that no steps whatever can be taken to make their repetition less likely in the future. But four things are certain. The first is that no legislation will prevent the public from subscribing capital, in times when general optimism prevails, for enterprises of doubtful worth. The second is that no Stock Exchange regulations will prevent the inflation, in boom times, of securities, to levels above their intrinsic worth, or conversely the collapse of prices in times of depression or panic. The third is that if clever men, occupying positions of responsibility, conspire to defraud or mislead, they may succeed, at least for a time. The fourth is that no form of annual accounts submitted to the shareholders of a public company, no matter how complete or how carefully drawn up, can be necessarily assumed to disclose fully every element, either of strength or of weakness, in a company's affairs.

Prominent among the public company matters which have been the subject of discussion and criticism is that of the annual balance sheet. Before I proceed to examine this question, I should mention a fact that will probably be obvious to most of you, as my paper proceeds, namely, that I am confining my remarks to balance sheets under the Companies Act, 1929, and am not considering classes of undertakings where the form of the balance sheet, and of the accounts which accompany it, is prescribed by any special Act of Parliament, such as railways,

gas and electricity undertakings in this country, and in the case with which you are specially familiar, that of insurance companies. But I suggest that questions of form and scope of balance sheets of public companies under the Companies Act, 1929, are of interest and importance to most of you gentlemen, the reason being that the insurance companies of this country are very large—and, I may add, very discriminating—investors in Stock Exchange securities generally.

My remarks before this audience must be of a more general character than would be the case if I were addressing members of my own profession, as I wish to avoid being too technical and to deal rather with general principles.

Many of the recent critics of company administration and finance contend, in effect, that in a large number of cases the directors of public companies submit balance sheets and profit and loss accounts to the shareholders in a form which discloses insufficient information. Some of the critics suggest various directions in which improvements in the form of these accounts could, in their opinion, be made; others go further than this and submit that standard forms of accounts should be prescribed by law.

As you know, these matters, among others, were carefully considered after much evidence had been given in 1925-26 by a very well equipped and representative committee, namely, the Company Law Amendment Committee; and many of the recommendations of that committee found their way into the Companies Act, 1929. And although the Companies Act, following the recommendations of the Committee, did impose a number of new conditions with which balance sheets of companies registered under the Companies Act had to conform, these conditions were by no means of a revolutionary character; many of them merely imposed the element of compulsion upon what was already among many public companies an established practice.

The observations which I shall address to you on the subject of company balance sheets will centre round the following points or questions:—

(i) Whether it would be practicable or desirable to impose, by legislation, further conditions with which the balance sheets of companies must comply.

(ii) Whether there is adequate recognition, on the part of the investing public, of the limitations to which a balance sheet by its very nature, is subject.

(iii) Whether, speaking generally, the information given to shareholders of public companies through the medium of the balance sheet and the profit and loss account is reasonably adequate.

(iv) Whether, and if so in what directions, established practice in regard to information made available to the shareholders of public companies, otherwise than through the medium of the balance sheet, is susceptible of improvement.

With regard to the first of these matters, namely, whether further legislation in regard to the information which the legal balance sheet of a company shall disclose is practicable or desirable, my own personal view is that the answer, broadly speaking, and with some limitations, is in the negative. I see danger in an attempt to standardise practice in cases which differ very widely. What may be suitable treatment in one instance may be quite unsuitable in another. As I have already mentioned, the new conditions which the Companies Act, 1929, imposes in this connection are relatively few; and the general feeling in this country, as I interpret it, is hostile to legislation which seeks, in effect, to tell the business community how to manage and disclose its affairs. In these days when business conditions tend to become more varied and complicated, elasticity and not absolute rigidity should be the keynote in regard to matters such as the form in which accounts should be submitted and the information which they should contain. Subject to necessary and minimum legislative safeguards, it will, I think, be admitted that the test of experience has proved in the business world the truth of the axiom attributed to a well known statesman that the country which is least governed is best governed.

Too much legislative interference is apt in time to create in the minds of directors of public companies and of investors in such companies the feeling that the State is the chief mentor of the one and the guardian of the other. This feeling is directly contrary to the doctrine of individual responsibility and runs entirely counter to the spirit of initiative and self-reliance which is said to be inherent in our race, and to which so much of our country's success in the past can be attributed.

In making these observations I am not ruling out the possibility that from time to time it may be found desirable to lay down, by legislation, further conditions in connection with the accounts submitted by public companies. In particular it seems to me, in the light of experience, that it is desirable to extend the requirements in regard to companies which have investments in subsidiary companies. A company may, for example, have its entire capital invested in the shares of and advances to one subsidiary company, the whole of whose share capital it owns. As the law stands at present, the holding company satisfies all requirements by the insertion in its balance sheet of assets described as follows:—

"Shares in subsidiary company at cost £ ";
and "Advances to subsidiary company £ ";
together with a general note as to the basis on which the profits earned or losses sustained by the subsidiary company have been dealt with. The published accounts of the holding company need contain no information whatever as to the nature of the assets or liabilities of the subsidiary company, although, in effect, though not strictly in law, they are the assets and liabilities of the holding company and the shareholders may be kept in entire ignorance of the amount of the profits or losses of the subsidiary company. Having regard to the extent to which

business is carried on through the medium of subsidiary companies, in my opinion the time has come when the whole question of further and more adequate disclosure should be reviewed.

I now come to the second of the matters which I have classified, namely, whether there is adequate recognition on the part of the investing public of the limitations to which a balance sheet, by its very nature, is subject. Speaking again in general terms, I think that this question must be answered in the negative.

As we all know, a balance sheet purports to be a statement of a company's assets and liabilities on a given date. But as we are well aware, changes in figures may take place on the assets side of the balance sheet without there being any corresponding change in real value in the assets themselves. For example, the directors of a company may decide to appropriate a part of the balance standing at the credit of the profit and loss account, or at the credit of a free reserve account, to write down or eliminate the book value of goodwill, or to make a reduction in the book value of the premises and plant over and above the normal depreciation required.

It is equally the fact that changes may take place in the real value of a company's assets without any corresponding changes appearing on the balance sheet. As an illustration of this one may quote the reduction in value—temporary, perhaps—of the goodwill of a company's business by reason of the net profits having declined in a year or a series of years. It is not in accordance with the principles upon which a balance sheet is drawn up to write up or write down the book figure of goodwill in ratio to varying profits. As you are aware, the item appears in a company's balance sheet on the basis on which the company actually acquired the goodwill of the business which it owns and carries on, less any sums which the directors may at a subsequent time or times have chosen to apply out of profits towards writing it down. Further, the original cost of goodwill may have been paid for in shares, in which case the book figure of goodwill need not necessarily represent its value at the time of acquisition. There is, however, quite a widespread impression—among persons who have not reasoned matters out—that all assets appear, or should appear, in a properly drawn up balance sheet at their realisable worth at the date which such balance sheet bears. Broadly speaking, this basis is an acceptable one so far as floating or liquid assets are concerned. Assets such as book debts, stock-in-trade, &c., are, as a rule, capable of close appraisal, and the question of their current worth is considered when the decision has to be taken in regard to the figures at which they are to be included in the balance sheet. But in regard to what are commonly known as fixed assets, the case is different. Frequently fixed assets may be said to be incapable of exact valuation; their worth must be largely a matter of opinion and as forming part of a going concern they may possess a value entirely different from that on piecemeal realisation. I have already touched upon "goodwill." The goodwill of a company's business can only be appraised after a careful review of the assets, the liabilities and the earnings over a series of years, coupled probably with the views of those actually concerned with that particular business or type of business in regard to future prospects.

Take again the question of the value of a company's land, works and plant. Let it be assumed that an expert valuer of high standing is called in to assess the current worth of these. His first question would be "On what basis am I to value? Am I to adopt a basis on the assumption that the undertaking is to pass as a going concern from a willing seller to a willing buyer? Or am I to assume that the hypothetical seller is anxious to sell and has to find a buyer? Or again, am I to proceed on the assumption that there is a buyer who is probably anxious to buy but that the owner of the business is not specially anxious to sell? Yet again, is there any prospective buyer (such as an owner of a competing business) who, if approached, would be likely to offer considerably more for the assets than anyone else, as he could henceforth deal with the two businesses as one, to his great advantage? Or, once again, am I to assume that it is unlikely that the business could be disposed of as a whole, as a going concern, in which event the assets would have to be sold piecemeal, on what is commonly termed a break-up basis?"

Questions like the above would have to be answered before the valuer began to make his calculations. And even when the basis on which he was to value had been defined, the value at which he arrived would still be a matter, not of fact, but of opinion, and quite conceivably another valuer of equal standing, similarly instructed, might arrive at a totally different result. Exact value measured in money can only be ascertained upon realisation.

One can appreciate therefore the practical difficulty of any attempt to assess, at the end of each financial year, the current worth of a company's assets as a whole. But let us carry the supposition a stage further and assume that the directors of a public company were willing to undertake such a responsibility and were able to agree collectively upon what the fair values were, at the date of a particular balance sheet. Would it then be a desirable thing for such values to be incorporated in the balance sheet? In other words, should entries then be made in the company's books of account adjusting the various book figures to correspond with assumed current values? If this were done, then obviously there would be a surplus or a deficiency as a result of this particular valuation. What would become of the surplus or deficiency? Suppose, for example, there was a surplus of £100,000 and that this surplus arose from a value of £100,000 being attributed to goodwill for which asset the company had paid nothing and which, therefore, did not previously appear in its balance sheet. Economic considerations and sound accountancy principles would preclude the surplus being carried to the credit of profit and loss account, because it would or might be wholly unsafe and in fact impossible (apart altogether

from the legal aspect of the matter) to distribute in cash the sum in question to the shareholders in dividend. In the first place, the company's liquid resources might not be sufficient to enable this to be done without depriving the business of necessary floating capital. And, in the second place, what would the situation be if, at the end of the next financial year, a revaluation of the goodwill was made and the figure attributed to this asset was then only £50,000? A deficiency of £50,000 would then emerge on the preparation of the balance sheet, and such deficiency would presumably have to be made good out of profits before any balance could be shown as being available for dividend.

Or let us take the converse case where, on a re-valuation, goodwill for which a company had originally paid £100,000 was valued at nothing. A deficiency would be shown on the valuation balance sheet in respect of this item of £100,000 and if this deficiency were carried to the debit of profit and loss account, it might preclude the company from paying any dividend to the shareholders in respect of the year to the date of the balance sheet, although in fact the company might have earned substantial operating profits during such year and had available ample liquid resources out of which the dividend could otherwise have been paid. One can imagine consternation on the part of the shareholders if such methods were adopted.

A possible alternative, of course, would be to show the "values" attributed to the fixed assets, in the form of a note or notes on the balance sheet; but as you will appreciate this would impose on the boards of public companies, year by year, responsibilities which, as prudent business men, they might well decline to undertake. Their duty is not to assess annually the "value" of the fixed assets, but to maintain them, as far as profits will permit, in a thoroughly efficient state for the carrying on of the company's business. The more one studies the question, and the wider one's experience of balance sheets is in actual practice, the more is one convinced that there is no change desirable in the fundamental basis upon which balance sheets of public companies are drawn up.

While touching upon the inherent limitations of balance sheets, I might mention a point which I think is sometimes lost sight of and which arises from the wide variations in the purchasing power of the £ sterling. A company may have in its balance sheet three factories identical in size, character, construction, &c. The first may have been built in 1913, the second in 1920 and the third in 1928. The first factory may have cost in 1913 £10,000, the second factory, erected in 1920, £25,000, and the third factory, constructed in 1928, £18,000. All these factories would be included in the balance sheet under the one heading of buildings or works, and there would be no indication that the value of the pound sterling differed widely in its purchasing powers when the money was expended. All that the economist could claim, in regard to the preparation of the balance sheet, would be that such a rate of annual depreciation should be applied to the book value of each factory as would suffice to write it out of the books by the time that, by reason of wear and tear and possibly also obsolescence, it was no longer of value to the business as an efficient asset. The directors of the company might, as a special measure of prudence, decide to apply some additional amount out of profits to write down somewhat more drastically the factory constructed in 1920, when prices of labour and materials were very high; but no one could go so far as to say that it was their duty to do so. They would probably be criticised if they decided to write up the book figure attributed to the factory constructed in 1913 on the grounds that if that factory had to be built at the present time it would cost considerably more.

I have referred in passing to this matter of pre-war and post-war cost levels, as it is one which, in the case of a company having important fixed assets, may have no little bearing upon the real strength or weakness of a balance sheet.

There is this to be said in support of the present principles on which balance sheets are drawn up, namely, that a balance sheet reflects in the main matters of fact and not matters of opinion, though both elements are present. Fixed assets appear at what they actually cost the company, less what has been written off in respect of wear and tear or obsolescence or by special appropriations from profits in pursuance of a conservative financial policy; and floating assets which are in a continuous process of realisation appear at not more than what they are expected to realise ultimately. Thus, a balance sheet, in spite of its inherent limitations, has an important element of stability which would be absent were it sought to revise each year the book value of the fixed assets on the basis of fresh valuations. There are, however, occasions when a revision in the book value of fixed assets becomes necessary, for example, when reconstruction takes place.

For the reasons I have given, there is not necessarily any strict relationship between (1) the balance sheet value of a company's net assets; (2) their realisable value; and (3) their value—mainly based upon dividends present and potential—as measured by Stock Exchange quotations of the share capital. Even the latter does not necessarily reflect intrinsic value, as it may be influenced in no small degree by considerations of supply and demand, and by the general financial situation.

I pass now to the third head of my observations, namely, whether, speaking generally, the information given to shareholders of public companies through the medium of the balance sheet is reasonably adequate. In the main, the answer must be in the affirmative, although one meets in practice from time to time cases in which, *prima facie*, criticism is fully justified.

The new Companies Act, as I have already mentioned, makes the furnishing of certain information in the balance sheet compulsory, so that in a number of cases where the directors of companies did not see

fit to disclose certain facts, disclosure is now made compulsory. Still, it is quite possible for a balance sheet to comply fully with the law, and yet be open to grave criticism on the ground of not affording sufficient disclosure. I referred a few minutes ago, as an instance, to the lack of information which is possible in the case of a company whose sole asset consists of an interest in a subsidiary company.

It is impossible to dogmatise without being aware of all the circumstances of a particular case, but I may perhaps be allowed to mention certain examples where *prima facie*, further information might quite justifiably be looked for in a balance sheet.

One sees, not infrequently, an item on the assets side of a balance sheet under some such heading as "land, buildings and plant at cost, less depreciation." In such a case it would not be unreasonable to suggest that if the information is available, the item should be separated into two totals, namely :—

(1) Land and buildings,

(2) Plant,

and the land and buildings described as freehold or leasehold, as the case may be. The Companies Act, you may remember, merely requires that fixed assets should be separated from floating assets; that the basis on which the fixed assets are brought into the balance sheet should be disclosed; and that the general nature of the fixed and floating assets should be indicated. The description "land, buildings and plant, at cost, less amounts written off," complies with the Act; and the statement is one of fact, so that the auditors cannot say that the balance sheet is not "properly drawn up," or that it does not "exhibit a true and correct view of the state of the company's affairs." But it is a matter for the directors to consider whether, having regard to the particular circumstances of the company with which they are concerned, some fuller information is not called for. Whatever the book value of fixed assets may be their real value lies—with certain exceptions—in their earning capacity. Nevertheless, a net figure of an asset described as being "at cost less amounts written off" does not enable one to know the extent or rate of depreciation and amortisation, but those cases in which the cost is shown with the amount of the deductions (including separately the last year's depreciation) do give shareholders a more informative picture.

Turning from fixed to floating assets, I may perhaps quote some cases which indicate the nature of information which is not always given, but which might legitimately be looked for. Among the floating assets in a balance sheet there may, for example, be "debtors £100,000." It is conceivable that this item may consist of book debts which are expected to be realised in, say, the course of the next month or two amounting to, say, £20,000, and advances to companies or individuals with which the company may have special business relations, which have been made on the footing that they will only be repaid over a fairly long period of time, or alternatively, where payment cannot be demanded for, say, one or two years. The item "debtors £100,000" is correct as a statement of fact; the information given complies with the Companies Act, but as an aid to indicating to the shareholders the company's position as regards readily available liquid resources, it may be criticised as inadequate.

The description, "at or under cost," seems to me to be as a rule unsatisfactory. It is frequently applied to the item "investments" where market quotations exist. In such cases a note giving the market value is desirable unless for very special reasons (which are relatively rare) the disclosure of quoted values is not expedient in the company's best interests.

I will quote one more example concerning a floating asset. A balance sheet may contain an item, "cash at bankers and in hand £200,000." If the facts are that, of this amount, cash at bank in England and in hand amounts to £10,000 and the balance of £190,000 is with banks in foreign countries where the economic or financial situation is unsatisfactory, the directors might well consider whether it is not well to separate the item.

Before leaving this part of my subject there are one or two observations of a general character which I should like to make.

A shareholder in a public company must not consider himself—as regards the information to which he should be entitled—as the equivalent to a sleeping partner in a large private partnership. A private firm, however large, has the right to choose its component parts—that is to say, the partners—both active and sleeping. But a public company has no such right as regards its shareholders. Anyone can purchase its shares on the market and so become a part proprietor in the concern. And further there is this to be remembered in regard to a public limited company, that information afforded to the shareholders as a body is, in effect, available for the whole world—including the company's competitors in business, both at home and abroad.

Another point which is perhaps worthy of comment is that not a little of the criticism one hears from time to time as to the paucity of information in balance sheets comes, or at any rate finds active support, from persons who are not investors in the strict sense of the term, but from individuals and firms who are interested in speculation in securities and who critically scan balance sheets in order to see whether there is anything to be gleaned from them which will indicate that the company's shares are priced in the market at the moment either too high or too low as compared with what may be their intrinsic worth. Such people have no permanent interest in the company's undertaking as such; the immediate policy as regards dividend distribution or share bonus issues is of more concern to them than the continued soundness and success of the business which the company is carrying on. Not infrequently, too, do similar complaints arise from statisticians, who like to tabulate for public or private

information the financial position and circumstances of a number of companies engaged in a particular class of industry or undertaking. One can appreciate their disappointment when the balance sheet of a particular company is presented in a form which does not lend itself at all readily to this process, but it is necessary to remember that the primary considerations which should influence directors in the form in which a balance sheet is presented do not include the needs of statisticians; they are, firstly, the interests of the company's business as such, and secondly, the reasonable requirements of shareholders whose interest is that of a permanent or semi-permanent investor.

May I make one other general observation? There is frequently apparent among the investing public a feeling that what is commonly understood as a "full" balance sheet would of necessity disclose a great deal of information of real value to a shareholder which would be absent in an abbreviated balance sheet. Admittedly, of course, the information in the full document greatly exceeds that in the abbreviated document; but this is a very different thing from saying that the additional information is correspondingly serviceable. In saying this, however, I do not wish to convey that many balance sheets are not capable of improved presentation. Much could be done by more intelligible narrative in the description of items and the general grouping of assets and liabilities. Frequently directors are obsessed by a desire for brevity and uniformity in description from year to year, when the use of a few more words and a variation of a description would convey the facts in such a form that the balance sheet would be more intelligible. In particular, a proper grouping of fixed and floating assets, liabilities, reserves, &c., is frequently absent when by a rearrangement of the balance sheet the main features might be presented in a form which would make the account more understandable to the shareholders. Mere technicalities of accountancy should be avoided.

In common with other practising accountants, it falls to my lot from time to time to express an opinion as to the value of a business owned by a private limited company. Possibly the appraisal is required in connection with a projected amalgamation, or possibly for probate purposes, on the death of a shareholder. It is very noticeable, in such cases, what a great deal of information one has to call for quite supplementary to that disclosed by the company's balance sheets over a series of past years, even though such balance sheets may have been drawn up in what may be described as a full and complete manner. The information thus sought is, in a large measure, of a character which would certainly preclude it from being supplied in the ordinary way to the shareholders of a public company; because, as I have already mentioned, this means, in effect, that the information would become public property and would be of no little value to the company's competitors.

I now come to the fourth point of my address, namely, whether, and if so in what directions, established practice in regard to information made available to shareholders otherwise than through the medium of the balance sheet is susceptible of improvement. Objection may be taken that a consideration of this question lies outside the scope of a paper entitled "Some Observations on Company Balance Sheets"; but you will, I think, agree that my remarks would be incomplete if they laid stress on the limitations of balance sheets without referring to the other means by which the directors of public companies communicate information to shareholders.

As you are aware, information conveyed to shareholders otherwise than through the medium of the balance sheet may be embodied in—

(*a*) the profit and loss account, which, as the law now stands, has to be submitted at the annual general meeting;

(*b*) the directors' report which must be attached to the balance sheet;

(*c*) the chairman's speech on the occasion of the annual meeting.

In certain classes of undertakings it is usual to submit to the shareholders certain further information during the course of the year, either by post or through the medium of the newspapers. In this connection one may instance the weekly or monthly traffic receipts of a railway, the monthly or quarterly reports of the quantity of mineral produced by a mine, and the periodical reports of the quantities of commodities, such as tea and rubber, harvested by plantation companies. With these special periodical reports I am not, however, concerned. I am confining my remarks to the annual information afforded by companies generally, leaving out of consideration the information of a special character which may be normally expected in companies of the classes to which I have just alluded.

As regards the profit and loss account, it may be found that in a number of instances the information given in this account, however abbreviated in form, is of as much value to the shareholder in affording a guide to the company's position and progress as the information in the balance sheet, however much greater in volume the latter information may be. After all, the value of the assets of a business, considered as a whole, really depends on what they are capable of earning in the form of annual profits; and consequently the figure of net profit which should be shown in a profit and loss account, when considered in conjunction with similar figures relating to previous financial years, may give the shareholder a fairly true indication of the real value of the enterprise which the company owns. I am, of course, speaking in very general terms.

You will remember that the Companies Act does not attempt to define the form in which the profit and loss account shall be submitted to shareholders, or the amount of detailed information which it should contain. This absence of definition is not to be condemned as it would be difficult, if not impossible,

to legislate in a manner which covered fairly and adequately the majority of the cases—widely differing from each other—which are encountered in practice. There can be no exception to general legislative requirements unless provided for specifically, and therein lie very considerable difficulties. The general practice among public companies—and I am thinking in particular of those owning industrial undertakings—is to submit the profit and loss account in an abbreviated form. Most frequently reasons of policy in the best interests of the shareholders themselves dictate this procedure. But I am bound to observe that one does, in practice, meet with cases where, *prima facie*, considerably more information could quite well be afforded without the company's interests suffering in any way. These cases are few in proportion to the whole, but they are not so few as to be negligible.

A recent case in the Courts connected with the *Royal Mail Steam Packet Company* has given rise to the question of the form generally of profit and loss accounts. The facts, as disclosed, were exceptional, particularly in regard to the degree and extent of items included in the profit and loss account of a particular year which were not connected with the year's normal operating results. The shareholders could not see from the accounts what were the true working results each year of the business which the company was formed to carry on. Extraneous and special credits were brought in of large amount which gave an appearance of considerable profits being earned which might be regarded as normal. The facts brought out dispelled this conclusion. I am not referring to the legal aspect of the case, but to the impression conveyed to the ordinary mind.

That case centred around a question of principle, *i.e.*, whether the annual profit and loss account was misleading by including as part of the year's results, without sufficient or clear indication, abnormal credits not relating to the year in question. Apart from this particular matter, the question of the form of the profit and loss account was not in issue.

I have read suggestions as to a "lead" being given for the improvement of the profit and loss account; by that is meant, I suppose, more information in cases where there is a paucity of information. I am entirely in favour of profit and loss accounts being more informative in many instances, and suggestions are often made by auditors to directors to be more communicative. But as the accounts are the accounts of the directors, an auditor cannot go beyond suggestions, if he is satisfied that the accounts submitted to the shareholders—that is, the balance sheet and the profit and loss account—are not misleading, but in fact give a fair picture of the position, based, of course, on sound accounting principles. If certain shareholders desire to have more informative accounts they should represent their views to the directors, and the chairman at the annual general meeting will deal with the question, and if he is supported by the majority of shareholders present in withholding information which he thinks it is not in the company's best interests to disclose, matters must remain as they are.

I see grave difficulties in attempting to stereotype forms of balance sheets and profit and loss accounts, and I am not prepared to say what is the minimum information which every profit and loss account should disclose. There is such a variety of cases, each differing from another in certain respects; there are so many thousands of companies not identical in objects or in the class of business conducted; there are so many problems of a special and not general character affecting one or a group of companies which do not touch others—that uniformity in presentation of accounts or in the amount of information to be given cannot easily be legislated for. The Committee which made recommendations before the 1929 Act came into being—after the fullest consideration—refrained from making specific suggestions as to the form of a profit and loss account, and Parliament approved; and unless abundant and fresh evidence is produced to justify certain minimum requirements in such an account, I would hesitate to put forward any concrete recommendation. There has been much said and written as to an improvement in an informative direction, but not one critic, recognised as a really competent authority, has, as far as I know, gone beyond somewhat vague generalities. It is easy to create an impression that something else is needed; but what is it? Anyone who tilts at an existing state of affairs finds an audience, but what would be more useful and practical is that the critic should tell us what is the exact legal requirement that is to be aimed at, as a minimum. Do not misunderstand me. I think that directors may well, in many cases, give without danger to a company's interests more information to shareholders than is the case at present, but the degree and extent of such information cannot be universally applied; it must be influenced by the character of the business, its methods of trading, and other considerations that have a special or peculiar bearing on the company itself. In this connection, whilst I feel for the reasons given that a stereotyped form of profit and loss account is not practicable, I think that in the preparation of all profit and loss accounts certain general principles should be followed in order to ensure as far as possible that the net results fairly attributable to the year's operations upon a basis comparable year by year should be shown and that extraneous and abnormal items should be stated separately. I am glad that the subject is being discussed. Not a little may be learned from the accounts and directors' reports of industrial undertakings in the United States and Canada, where as a rule much more information is given than is seen here, and I am not aware that the companies in North America which submit such informative accounts have been disadvantaged.

Directors should not necessarily regard legal requirements as their only guide in submitting accounts. There are occasions—many, in fact—when directors should, in the shareholders' interests, go much further.

Balance sheets and accounts in this country are being improved in matters of detail and that improvement will, I believe, spread. And auditors, as far as they can, will, I am sure, continue to use their influence as far as they legitimately can to hasten the process.

With regard to the directors' report, you may remember that until the coming into operation of the new Companies Act there was no obligation for such a report to be made unless Articles of Association so prescribed. The Act, however, now makes it obligatory on the directors to attach to the balance sheet a report with respect to the state of the company's affairs, the amount of dividend recommended to be paid, and the amount proposed to be carried to a disclosed reserve account. In the majority of cases of public companies owning industrial undertakings, the directors' report is in quite an abbreviated form and does not review the position or the prospects of the company. There may in some cases be good reason why the directors should be a little cautious in attempting to forecast even the immediate future. Not infrequently detailed information is given to the shareholders by the chairman in his speech on the occasion of the annual meeting. Objection may, of course, be taken that if this information is of considerable importance it is only communicated in the first place to such shareholders who are present at the annual meeting. It is true that a report of the meeting may subsequently appear in the Press and also that a copy of the proceedings, including the chairman's speech, may in due course be posted to all the shareholders; but the fact remains that some of the shareholders—*i.e.*, those who happen to attend the meeting—will obtain the information in advance of the others. It is, however, unusual for information of any outstanding importance to be communicated to the shareholders except simultaneously by means of a printed notice. There are cases where the substance of the chairman's speech to be delivered at the annual general meeting is communicated to the shareholders with the directors' report and accounts.

I have referred to the directors' report which accompanies the annual accounts being frequently very abbreviated. In cases where printed copies of the chairman's speech at the annual meeting are not subsequently forwarded to the shareholders, I feel that the directors might, in some instances, consider whether their report which accompanies the accounts could not, with advantage to the shareholders and without detriment to the company, be amplified.

A suggestion which is, I think, worthy of consideration in some cases is whether shareholders would not welcome, as an attachment to the directors' report, a brief summary of the financial position of the company, as shown by its balance sheets, and a note of the profits, as shown by the annual profit and loss accounts, and of the dividends paid, covering a series of years. It is true that the whole of this information would be contained in the accounts and directors' reports of such years; but it is not many shareholders who retain the prints of the reports, and still fewer who tabulate the most important figures disclosed by them year by year. I have in mind some such statement as the following, which would naturally be subject to amendment according to circumstances :—

	Year 1927.	Year 1928.	Year 1929.	Year 1930.	Year 1931.
	£	£	£	£	£
Total fixed assets (stating separately tangible and intangible assets) less depreciation provisions as shown by Balance Sheet, at end of year					
Total floating assets, as shown by Balance Sheet, at end of year ..					
Deduct—					
Total liabilities (excluding Debentures) and specific provisions, as shown by Balance Sheet, at end of year					
Excess of assets over liabilities and specific provisions					
Represented by—					
Total Debenture Issues					
Total Issued Share Capital ..					
Total of the General or Free Reserves (including balance of Profit and Loss Account)					
Profit for year available for dividend					
Profit distributed in dividends (Preference and Ordinary) in respect of year					
Rate per cent. of dividend paid on Ordinary Share Capital	%	%	%	%	%
Balance of Profit and Loss Account carried forward to next year ..					

Criticism may be made that the figures shown by such a tabular statement may not be strictly comparable year by year. For example, the company's policy as regards provision for depreciation may not have been uniform throughout the period, and in other respects the disclosed profits of each year may not have been arrived at on exactly identical lines. It is not unusual to find that the boards of public companies take advantage of periods of prosperity

to strengthen the balance sheet by making specially liberal appropriations for depreciation or contingencies, thus giving to the company means of relief when times are bad. Again, for example, if a company applied a portion of its credit balance on profit and loss account to write down as a precautionary, but not necessary act, the book value of its goodwill, there would be a reduction in the total of the assets without any reduction in the real value of the assets themselves. And there are cases where extraneous and non-recurring charges and credits, not relating to the ordinary course of business, enter into a profit and loss account. These special items if sufficiently important should, in my opinion, be referred to in the tabular statement.

Inner or secret reserves and their propriety—if not legality—have recently been the subject of judicial comment. Such reserves may exist, for example, in the excessive writing down of the book values of assets, of under-valuation of investments, or in provisions for contingencies the amount of which is not specifically set out on the balance sheet. In my opinion, directors should be entitled, in the interests of a company and its shareholders, to make reasonable provisions for contingencies and should be allowed discretion in so doing without necessarily being required to disclose the amount of the provisions in the balance sheet. Many shareholders have good reason at the present time to appreciate the wisdom of such a policy where it has been adopted, and others to regret the absence of inner reserves. The reserve for contingencies is generally included in an omnibus item on the liabilities side of the balance sheet (such as "Creditors, including provision for contingencies"), and in my view it is necessary that its existence should be indicated by suitable wording. The use of such reserves in relief of losses or by way of supplement to profits should, I think, be indicated to the shareholders, and except in comparatively rare cases the amount so used should be stated. The origin and utilisation of undisclosed reserves covers such a wide field of circumstances that it is not possible to dogmatise on the question, and a decision as to the right course to pursue can only be arrived at after a full consideration of the facts in each individual case.

I have said not a little in this paper about the policy of directors towards shareholders, but nothing of shareholders' duties to themselves.

Too many shareholders are indifferent when it comes to taking an intelligent interest in the affairs or administration of a public company in which they are part proprietors. Relatively few of them study the accounts and the directors' report at all carefully, and fewer still are present at the annual general meeting—unless, indeed, things are going badly, when they bestir themselves, attend the meeting in some force, and make—in moments of disappointment or irritation—observations which are frequently very wide of the mark, and offer criticisms which are sometimes harsh and unjustifiable.

In the ultimate issue, the information which the boards of public companies will afford to the proprietors, whether by the medium of the balance sheet, the profit and loss account, the directors' report, or the chairman's speech, is dictated by public opinion. It is therefore vital that the public—and particularly the investing public—should be well informed on these matters. In other words, that it should be instructed and guided in a manner which will enable it to form sound judgments. Too often the shareholder assumes that if a company is distributing good dividends, all must be well, and if it is doing badly, the board must be guilty of mismanagement. A factor in the situation of which the discriminating investor takes due cognisance, but to which the average investor pays too little heed, is the personnel of the board. In these days it is relatively easy to obtain an opinion as to the reputation and ability of individuals who act as directors of public companies.

I have already taken up much of your time—perhaps too much on an occasion like this. My observations were intended to be of a general character and cannot, in the circumstances, be all-embracing on a subject that lends itself to very wide treatment in all its bearings and respects; but I hope sufficient has been said by me to dissipate some misconceptions and to put matters before you in their fair perspective.

Changes and Removals.

Messrs. C. Hewetson Nelson, Robson & Co., 43, Castle Street, Liverpool, have taken into partnership Mr. W. E. Taffs, Incorporated Accountant, who served his articles with the firm, and has been a member of the staff for the past fourteen years.

Messrs. Brown, Butler & Co., Incorporated Accountants, announce that their Bradford address has been changed to 32-34, Piccadilly.

Mr. Thomas E. Clarke, Incorporated Accountant, 34, Castle Gate, Nottingham, announces that he has taken into partnership Mr. Philip Attenborough, Chartered Accountant. The practice will be carried on at the above address under the style of Clarke, Attenborough & Co.

Mr. W. C. Gardiner, A.C.A., Incorporated Accountant, has been admitted a member of the firm of Messrs. Hill, Vellacott & Co., Finsbury Circus House, London, E.C.2, and also of Messrs. Hill, Vellacott & Bailey, Coates Buildings, Castle Street, Belfast.

Messrs. Middleton & Hawkins, Abbey House, Victoria Street, Westminster, S.W.1, and Reigate, have taken into partnership Mr. H. W. Payne, Incorporated Accountant. The practice will in future be carried on at these addresses under the style of Middleton, Hawkins & Co., Incorporated Accountants.

Society of Incorporated Accountants in Ireland.

ANNUAL DINNER.

The Society of Incorporated Accountants and Auditors in Ireland held their annual dinner in Dublin on January 30th. Mr. JAMES A. KINNEAR, President of the Society, was in the chair, and the guests included: The Lord Mayor of Dublin (Alderman Alfred Byrne), Mr. E. Cassleton Elliott, Vice-President, Society of Incorporated Accountants and Auditors; Mr. T. H. R. Craig, Senior Vice-President, Incorporated Law Society of Ireland; Mr. William O'Brien, Chairman of the Revenue Commissioners; Mr. J. J. Halpin, President, Dublin Chamber of Commerce; Mr. G. Brock, F.C.A., Hon. Secretary, Dublin Society of Chartered Accountants; Mr. R. C. Ferguson, M.A., Department of Industry and Commerce; Mr. R. F. Browne, Chairman, Electricity Supply Board; Mr. W. Edmiston Crawford, A.C.A., Secretary, Institute of Chartered Accountants in Ireland; Mr. J. D. Thompson, President, Belfast District Society of Incorporated Accountants; Mr. H. McMillan, A.S.A.A., Hon. Secretary, Belfast District Society; Mr. J. Malvern White, LL.B.; Mr. Alex. Hannah, President, Liverpool District Society of Incorporated Accountants; Mr. A. E. Piggott, Hon. Secretary, Manchester District Society of Incorporated Accountants; Mr. A. A. Garrett, M.A., Secretary, Society of Incorporated Accountants and Auditors.

The PRESIDENT, proposing the toast "Prosperity to Ireland," said that the Incorporated Accountants of Ireland had only one boundary and that was the sea. He was glad to be able to say that they worked in the closest harmony with the sister society, the Institute of Chartered Accountants in Ireland. They were very pleased to welcome Mr. Cassleton Elliott, Vice-President of the Parent Society, but the members in Ireland were granted a considerable measure of self-government, the Irish Council being given a very free hand. Substantial progress had been made in Ireland in recent years. Their Governments, North and South, had proved their worth. The excellence of Irish farm produce, Irish linen, and Belfast shipbuilding were unquestioned. But they must not rest content. Capital and labour should bind themselves together closer than ever before. More use might be made of the technical schools. They must keep in mind that they cannot get higher wages than their purchasers would pay. If they took the present British wage-level as 100 (and Irish wages in many cases were higher), Germany would be 74, France 59, Belgium 50, and Italy 45. Professional accountants must equip themselves for all emergencies and be able to give helpful and constructive advice for the advancement of their native land. The Irish race had capacity mentally and physically second to none, and it but required concentration and close attention to work to make the prosperity of Ireland what it should be.

Mr. J. J. HALPIN, President of the Dublin Chamber of Commerce, responding, expressed his pleasure at addressing a professional body which operated in both parts of Ireland. As accountants they well knew that prosperity would not come by drinking to it or by shouting; it could only come through hard work, forethought, and enterprise. With the continuous fall in prices which had been the outstanding feature of the past two years, all nations were faced with the same problem. They were top heavy with expenditure on Government and social services. Accountants must play an important part in the expansion of business which must take place if they were to become more prosperous. The accountant should regard himself as the consultant physician of the business world. He would continue to advocate that the younger members of the profession should make a special study of cost accounting. In doing this he was looking to the future. If any progress were to be made better use must be made of costing systems and statistics, and it was the duty of the accountants to educate business men in their use. This subject would give the younger accountants an opportunity to make use of their ingenuity, for it was essential that the costing system applied to any business should not be more complicated than was necessary for its purpose. The system must not be so elaborate that it cost more than was warranted by the size of the business and its turnover. He felt sure that Incorporated Accountants had a very important part to play in bringing prosperity to Ireland.

The LORD MAYOR OF DUBLIN (Alderman Alfred Byrne), proposing the toast of "The Society of Incorporated Accountants and Auditors," said that they were all very interested during the long hearing of an important case in London a few months ago, and he was particularly pleased to read that their President, Mr. Morgan, whose company they all enjoyed so much last year, was called to give expert evidence, and in a word to define the attitude of the accountancy profession in the matter of auditors' certificates on the accounts of public companies. It was hardly necessary to say that the prestige of the profession was considerably enhanced in the public mind both during the trial and in the jury's verdict. The growth of the accountancy profession was a matter of common knowledge, and it must be said to the credit of the present-day accountant that he had made himself intimately acquainted with all the complicated activities of trade and commerce. It was also interesting to know that accountants played an important part in the public life of the community, particularly in the realm of municipal accountancy. The general public, and particularly the elected representatives of public bodies, would always look to accountants to help in improving the system of financial administration, and he believed that that confidence was not misplaced. He understood this was the second visit of the Vice-President, Mr. E. Cassleton Elliott, and he extended to him and all his friends from the other side a very hearty welcome back to Dublin.

Mr. E. CASSLETON ELLIOTT, Vice-President of the Parent Society, responding, thanked the Lord Mayor for the kind terms in which he had proposed the toast. The membership of the Society was now over 5,600. At the last examination 50 per cent. of the examinees passed, and he would like to say to those who were not successful the first time that they should not be discouraged, but should study hard so as to be successful the second time. In regard to the case to which the Lord Mayor had referred, a committee had been set up by the Council of the Society to see what alterations might be made in the Companies Act, and what voluntary suggestions should be made, and he could tell them that the special Committee was very busy on the matter at present. He cordially supported the view of the Lord Mayor that they should give their service to the State and to the community in whatever ways were open to them.

Mr. A. A. GARRETT, Secretary of the Society of Incorporated Accountants and Auditors, proposing the toast of "Our Guests," said that on behalf of the Society of Incorporated Accountants in Ireland he most cordially welcomed the guests, representing the public, commercial

and professional life of Ireland. He referred to the fact that they had met many of their guests in the course of professional business, and particularly mentioned the Chairman and other senior officials of the Revenue Department of the Irish Free State.

Mr. ARTHUR E. PIGGOTT, Hon. Secretary, Manchester District Society, who was called on by the President, said that he had sufficient confidence in their country to consent to his daughter marrying an Irishman. (Laughter and applause.)

Mr. T. H. R. CRAIG, Senior Vice-President of the Incorporated Law Society of Ireland, in reply, expressed regret at the unavoidable absence of the President of the Society, Mr. Harry Ryan. The Incorporated Law Society was a sister society of their Society. The Society of Incorporated Accountants looked after the interests of the accountants in the first place, and looked after the interests of the public by seeing that its members were fully qualified and competent for their job. The Law Society looked after its profession and the public by seeing that apprentices to the profession were properly educated. He knew of no instance where there had been the least friction between the two bodies, and he believed that they would always work in friendliness and co-operation. (Applause.)

Mr. R. F. BROWNE, Chairman of the Electricity Supply Board, Mr. J. BROCK, F.C.A., and Mr. ALEX. HANNAH, F.S.A.A., also responded.

Obituary.

LAWRENCE ROBERT DICKSEE.

Professor Lawrence R. Dicksee, M.Com., F.C.A., passed away on February 14th last after an illness of some duration. It would be difficult for the younger generation of accountants to visualise the time when Professor Dicksee's name was not a household word in the profession, as during practically the whole of his career he had been identified with the education and advancement of students in accounting. His works are well known and will be found on the shelves of accountancy practitioners everywhere. Professor Dicksee was the youngest son of the late Mr. J. R. Dicksee, the well known artist, and was born 68 years ago. He was educated at the City of London School, and after serving his articles he was admitted to the Institute of Chartered Accountants in 1886. At the time of his death he was head of the firm of Messrs. Sellers, Dicksee & Co. For many years Professor Dicksee was a valued contributor to the columns of our contemporary, *The Accountant*. After some teaching experience in London, he was appointed Professor of Accounting in the University of Birmingham, from which he received the Hon. Degree of M.Com. Subsequently he became Lecturer of Accounting at the London School of Economics, and afterwards he was appointed "Sir Ernest Cassell Professor of Accounting and Business Organisation" in the University of London. Upon his retirement from this post in 1926 he received the title of Emeritus Professor of Accounting, University of London. Professor Dicksee also interested himself in the subject of modern office methods, and he leaves a name behind him which will long be remembered in the profession, and his labours will be recognised and valued in its history.

The Accountant and Industry

A LECTURE delivered at Sheffield before a joint meeting of Incorporated Accountants, Chartered Accountants, Chartered Secretaries, and members of the Institute of Bankers, by

Mr. E. CASSLETON ELLIOTT,
Vice-President of the Society of Incorporated Accountants and Auditors.

Mr. ELLIOTT said: One of the chief problems in this country to-day, which forms the basis of many articles in the Press and on the public platform by leading publicists and economists, is that of industry. In the same way, considerable emphasis is directed to finance and currency, and on all sides the question of financial security for the public and the private individual is brought prominently before us on every possible occasion. That security is thought of chiefly in financial terms, but as finance is only a means of exchange for the transference of commodities from one country to another, or from one district to another, my main contention that the chief problem to-day before this country is one of industry is, I think, correct. During the last few months two important propositions have been brought before us in this country—propositions which are vital to our welfare and our security as a nation: The first was the urgent necessity which everyone will admit, that the Budget of Great Britain must be balanced, and, although it is a little early to say definitely, there seems every probability that the stringent measures introduced last autumn by the Chancellor of the Exchequer when he brought his Second Budget before the House of Commons, will have the necessary effect. That proposition having been settled on paper, the next problem before the country was the necessity of balancing our trade, and by this I mean, of course, an equalisation of imports and exports. For the past few years the trade figures have shown a credit balance in favour of this country. For 1928 that balance was £137,000,000; for 1929 £138,000,000; for 1930 this credit had dropped to £39,000,000, and in 1931 the estimated deficit or debit balance is £113,000,000.

I have introduced these figures thus early in my paper so as to give you an indication of the magnitude of the problem, and the urgency of restoring industry to its former prosperity. If only it were possible to get industry going again the benefits to this country would be enormous, and the first effects would be a reduction of unemployment, decrease in costs of public assistance, and thereby a possible reduction in taxation. Increased trade would naturally mean increased exports, and consequently a relief to the exchange position, with, it is hoped, cheaper money. It may be argued that the results I have suggested must come before trade can improve, particularly in regard to a reduction in taxation and cheaper money. I do not, of course, wish to introduce politics of a controversial nature to this audience, but I do feel that trade is being very severely hampered by the excessive taxation under which we are all labouring, and also by the high rate of interest which is being

charged industry at the moment owing to the Bank Rate being retained at 6 per cent. Although I have tried to state the problem in simple terms, really the question of improved industry is a most involved and difficult one, and therefore I feel that for members of the accountancy profession to render the most helpful service to the community it is necessary for us to appreciate the major factors in the general situation. These factors must be taken into consideration. Piecemeal improvement in this direction or that is equally important, as the solution of major problems is not entirely in our hands by any means.

If we turn now to the major factors, we find that some affect the whole world, some affect Great Britain with special severity, and some are peculiar to Great Britain. There are many disturbing major causes which have far-reaching repercussions. All the nations of the world are striving to-day for the mastery, each from its own angle, but there is one thing common to us all: it is that we are weighed down by commitments of the past. Here I would like to quote the New Year message from Sir William Clare Lees, President of the Association of British Chambers of Commerce, because, if I may say so, I think he states very clearly and simply the problems which are affecting this country at the present time:

> "The immediate and pressing problem facing this country at the present moment is the need for a substantial increase in the physical volume of our exports. We have relied too much in the past on the invisible items of our overseas trade to balance our external trade budget. The policy of Government should be concentrated upon this question, for only by an increase in our export trade can we hope to create the credits necessary to finance the purchase of food, without which we starve, and raw materials, without which we cannot be employed. In order to make this policy possible, the purchasing power of our overseas customers must be restored.
>
> "This can only come about as a result of an increase in world prices of primary products. Our foreign policy and our financial policy, therefore, should converge on initiating and aiding sound policies having that ultimate object in view: the resuscitation of world purchasing power, the improvement of credit facilities, the restoration of confidence, all leading to a material increase in the volume and velocity of external world trade.
>
> "Our policy at home should concentrate on reduction in cost of production, so that we may be in a position to obtain our full share of any improvements in world conditions.
>
> "Governments can aid industry by practising economy and by reducing taxation. The present level of taxation in this country not only cripples industry, it discourages enterprise."

DISTURBING FACTORS AFFECTING THE WHOLE WORLD.

One of the disturbing factors affecting the whole world is the serious reduction in the total volume of the world's trade, measured in imports and exports, and also the general and unforeseen fall in prices. This latter cause has disturbed every calculation upon which the world's organisation has been built up in the last twelve years. Other contributing factors are the excessive tariffs and trade restrictions which every nation to-day, ourselves included, is placing upon industry, because the world appears, during the last few years, to have become nationally or insular minded. These restrictions, to my mind, have had a great deal to do with the concentration of three-quarters of the gold supply of the world in France and the United States. There has, too, as we all know, been an orgy of speculation and bad finance throughout the whole world, with the result that the pendulum has swung entirely the other way, thus leading to stagnation. Large foreign loans made by Great Britain and the United States have been wasted, and I am informed on good authority that a great many of these loans are not represented by tangible assets, and often, where not so wasted, are represented by assets which are non-revenue earning at the present time. As we all know, the ghost of reparations and war debts stalks through the world, and although the nations of the world, in part, appear to be coming to the conclusion that it would be as well to cancel partially, if not completely, war debts and reparations, that would, of course, be a most favourable factor, but it would be a mistake to assume that immediate relief would follow. The world we live in is surprising, because on all sides we are told that there are surplus stocks of raw materials and products of every kind, and yet, because a financial solution has not been found, it is impossible for these stocks to be consumed by the people who require them. I am not attempting in this short paper, were I able to do so, to give you a solution of this difficulty which brains far cleverer than mine are engaged in trying to solve. I am not, however, without hope that a solution will be found, and when it is discovered the trade of the world will begin once more to move slowly but surely.

FACTORS AFFECTING GREAT BRITAIN.

From a study of the pronouncements which have been made recently by various publicists, there appears to be general agreement that the price deflation which has affected Great Britain arose from a return to the Gold Standard in 1925. At that time the £ sterling was quoted at $4.86 in New York, and, relatively speaking, it was assumed that the £ would purchase in England the same quantity of goods as $4.86 would purchase in the United States. This, however, was far from the case, because the American price level did not rise, as was hoped, owing particularly to the sterilisation of gold in New York. The immediate consequence so far as this country was concerned was a depreciation of British prices, and that, coupled with high taxation and rates, municipal and otherwise, has had a most damaging effect on British trade. Businesses finding their turnover decreasing, owing to reduction in prices, have sought to remedy the position by reduction of overhead expenses and working costs. Another factor

which has affected British trade is the discrepancy in remuneration in sheltered and unsheltered industries, and in competition with ourselves, foreign countries, because their workmen have not enjoyed the same high standard of living, succeeded in enjoying prosperity between 1924 and 1929. Great Britain unfortunately did not share in that prosperity as it should, because of the higher standard of living and the inability to reduce wages, owing to the discrepancy between wholesale and retail prices. I do not wish to attack unduly the retail traders of this country, but the percentages of gross profit which they call for, and expect to obtain, because of high selling costs, are very much greater, in proportion, than those obtained by the manufacturers. Speaking generally, the retail prices of commodities do not drop so quickly as the wholesale prices. I understand that it has now been demonstrated that the higher standard of living in Great Britain arose from :

(1) Invisible exports, and

(2) Expenditure of a larger proportion of annual income than hitherto.

The savings of this country, although spread over a large number of people, as is evidenced by the tremendous success of National Savings Certificates and the steady flow into the Post Office Savings Bank, are not so large as in previous years, owing to high taxation and, possibly to a certain extent, to the attitude of mind induced by the incidence of Excess Profits Duty in this country during the War, which, in my opinion, had a most pernicious influence on the conduct of business generally. When the rate of Excess Profits Duty was 50 per cent. it was possibly not quite so bad, but when the rate was raised to 80 per cent. the business community did not scrutinise expenditure as carefully as it had done previously, seeing that a very large proportion of any extraordinary expense was paid by the Government. I cannot help feeling that this attitude of mind persists to a certain extent to-day because of the high rate of taxation, and I feel sure that a reduction in Income Tax would have a very beneficial effect upon the trading of the whole of Great Britain. Another factor which, in my opinion, has had a bad effect upon the trade of this country is that many countries abroad had to provide financial credits to meet their obligations for reparations and war debts, and the only way to provide these credits was by the sale of the products and manufactures of their countries. As the result of tariffs in other countries the open British market has been exploited very considerably, and the goods which arrived here flooded the market at various times and resulted in reductions of prices. We must not, however, be too depressed at the state of affairs, and I think, if we turn to another set of figures which has been shown to me, we shall find that although the United Kingdom enjoyed only 13 per cent. of the world's total trade in 1930 as against 15 per cent. in 1913, this compares very favourably with the United States 12.6 per cent. as against 11 per cent., and France 6.7 per cent. as against 7.8 per cent. The French and German proportion of the world's trade has dropped (except in 1931, when special facts operated), whereas the share of the United States and Japan has increased. This is to be expected, and I do not think should worry us unduly, because it might well be, owing to the increased population of the world, and the increased consumer demand, that although Great Britain received a smaller share of the world's trade, such smaller share might be larger absolutely than hitherto. A decreasing share or percentage of the world's trade of older countries is not of itself, in my opinion, a sign of commercial decadence. Favourable factors in this country are, very briefly : lack of evidence of inflation in any part of our credit system, and the soundness of the British banking system, which has been exemplified in the balance sheets of the Big Five published within the last few days. In these balance sheets care is taken to show that the depreciation of securities has been provided for, either out of inner reserves, or published reserves, and for this we, as a country, must be profoundly thankful when we compare the position in the United States. In that country many banks have failed, and it has been necessary to provide a special treatment for the depreciation of securities.

GREAT BRITAIN'S APPROACH TO A SOLUTION.

I have endeavoured to show, in a very general way, as simply as I can, because I do not pretend to be an economist or statistician, the position of the world's trade, and of Great Britain in particular, and in endeavouring to assist in a solution towards the recovery of the trade of this country I shall now try to show the manner in which an accountant can be useful. One is not surprised that Great Britain has decided definitely to make the best use of her own markets, whilst conscious of the vital needs of large exports, and the maintenance, though not dependance upon too large a proportion of invisible exports. That is the policy of the Government at the present time, but the Government, I think, has equally determined that assistance, whether by tariffs or otherwise, must be dependent upon efficiency, and it is in regard to efficiency that, in my opinion, accountants can be of material assistance. There is a possibility, and a considerable possibility at that, of a larger measure of co-operation in various industries and trades, and it is chiefly in regard to organisation and co-operation that, I think, there is plenty of scope. The Macmillan Committee came to the conclusion that the shortcomings of this country in technical efficiency as distinct from organisation, may not have been so great as was sometimes supposed. This view was supported by the rates of real wages, and simultaneously by the maintenance of a substantial, though reduced, export trade. Emphasis was therefore placed by implication on sound organisation of business being quite necessary as efficiency on the technical side.

THE MODERATE-SIZED MANUFACTURER AND DISTRIBUTOR, AND SMALL MANUFACTURER AND DISTRIBUTOR.

Rationalisation has been explained by many abler accountants than I can claim to be, and various

industries have been rationalised and are now working as one unit. Personally, I prefer co-operation to rationalisation, because I feel—in fact, it has been shown—that if a concern absorbs too many units too quickly it becomes overloaded, unwieldy, and suffers from indigestion. On the other hand, if there is real co-operation in any particular industry, combined with exchange of ideas and information, competition, though not entirely eliminated, is not so fierce, and the individual trader or manufacturer is not entirely submerged. I will leave the question of rationalisation at this point, as this requires a separate paper to itself, and in leaving it I must not overlook the important advocacy of this method before the Macmillan Committee by leading economists and industrialists. I cannot help feeling, however, that rationalisation does not offer anything like a complete solution.

In my view, our problem is to assist the smaller and moderate-sized manufacturer and trader to a high state of efficiency and, with co-operation in the industry, to assist him to produce and sell at competitive rates.

RE-ORGANISATION, EFFICIENCY AND NEW CAPITAL.

Now let us consider what are the general tests of efficiency, and what are the points we look to when asked to investigate a business, manufacturing or otherwise, to find out the weak spots and advise how these can be strengthened. The first thing to do, in my opinion, in the case of a manufacturing concern, is to ask one of the leading officials who has a technical knowledge of the business, to conduct the investigating accountant through the factory, so that he may have some simple knowledge of the process carried on therein and be able to discuss the problems with a certain, though naturally a limited, knowledge. In a tour of this kind the accountant must keep his eyes and ears open, and by taking note of small things, however trivial they may appear, gain the general atmosphere of the factory, and I feel sure that he will find this knowledge most useful to him at a later period. In a factory there are three problems to which he should direct his attention, viz:

1. Production.
2. Selling.
3. Administration.

As regards *Production*, he has obtained some knowledge of this by his tour of the factory, and if he has had an opportunity on other occasions of visiting or seeing over a similar kind of manufacturing business he can form an opinion as to whether the technical equipment appears to be up to date, and as to whether the layout is economical and efficient. He will, no doubt, find that the engineer in charge has certain ideas of his own which he would like to put into effect but finds it impossible to do so because of lack of capital. A general chat with the engineer, quietly, produces a mine of information if the engineer knows his job, and it will often be found, too, that it is advisable to have conversations with other managers, such as the production manager and the planning manager. The production manager will often claim that he is hampered for lack of working capital, and that consequently he cannot buy in the cheapest market or get delivery of his goods as quickly as he would wish. He may also claim that he is hampered by indefinite instructions as to what he is to produce. If the factory is sufficiently large there will be an assistant to the production manager, who is sometimes termed a "planning" manager, and who can give useful information if he is tactfully approached. His information will doubtless supplement the information supplied by the production manager as to raw materials and the like.

Selling: The next most important person to interview is the sales manager, or the director, or whoever is in charge of the selling organisation, and the method of approach to him will be to find out whether the decrease in sales (because doubtless there will have been decreases) is due to high cost of production or lack of public interest owing to change of fashion, or for any other reason. By change of fashion I mean the change from boots to shoes which has been so prevalent during the last few years; or, since the introduction of the motor car, the change from carriage building to motor body building. The sales manager should be able to furnish the accountant with statistics showing the records of his travellers and the areas covered by them, and various other matters which are incidental to the particular business being examined. Closely connected with the question of sales is that of advertising, and it may well be that the sales manager deals to a large extent with advertising, unless there is a separate advertisement manager. If the sales manager deals with this question himself he will be able to supply information on this subject, and one question which, I think, is of vital importance is as to whether the advertising allowance is sufficient for the business, and as to the spending of it efficiently.

Administration: The administration of a business should be centred in the managing director, or managing directors if the business is sufficiently large to divide the duties. By administration I mean, in a word, seeing that the policy as laid down by the board is carried out by the executive, consisting at the top of the managing director, and then the heads of various departments. Immediately under the managing director would be the production manager, the sales manager, the chief accountant, or head of the counting-house, and the secretary. In discussing the business generally with the managing director I think it is very necessary to ascertain from him as to whether the particulars he requires in the way of accounts, figures, and statistics, are obtainable from the accountant quickly and accurately, because this is a sure test as to whether the counting-house is efficiently managed. In connection with the administration, the investigating accountant should discuss with the chief accountant the general scheme of things and should ascertain from him as to the statistics he is asked to prepare. He should also find

out the persons to whom these statistics have been sent, and ascertain directly from them as to whether they are useful and as to whether they are used. I lay emphasis upon this because it so often happens that statistics continue to be furnished because they have always been so furnished, and no inquiry is made from time to time as to whether these statistics are useful and are being used. Having investigated the business generally, and before this general investigation has been completed, it will of course have been necessary to examine the balance sheets and detailed trading and profit and loss accounts for at least the past three years, and possibly longer, to see the course of business. It will now become necessary to examine these in greater detail, and possibly to redraft the accounts so that they will show the expenditure under certain well defined headings. For instance, obviously production and production costs must show in the trading account and in the profit and loss account; the two chief headings, divided later into other sub-headings, will be Representation or Selling Expenses, and Administration or General Overhead Expenses. There will also be Depreciation, which can be calculated quite accurately, and should be of course on a generous basis so that the business will have the necessary funds in hand to provide for expenditure on new machinery when it is required. Now the next question to decide is as to whether the business is being run efficiently, and the real test that can be applied is the result as shown by the trading and profit and loss account. For instance, it should be fairly common knowledge as to the percentage of gross profit which should be called for in the particular class of business being investigated. The percentage of selling expenses should also be known within a little. General overhead expenses should be ascertained, and the percentage of net profit will vary according to the size of the business and the magnitude of its operations. It is of course difficult to lay down any hard and fast percentages, but the practising accountant has an opportunity of studying balance sheets and profit and loss accounts which those actively engaged in the business are not able to do. The general tests of efficiency, therefore, are:

(i) Technical Equipment, Layout and Handling.

(ii) Adequate Working Capital.

(iii) Low Cost of Production.

(iv) Economy in Overhead Charges.

(v) Proper Distribution.

(vi) Sound credit and trade finance in regard to purchase and sales.

(vii) Effective Sales Organisation, both at home and abroad.

(viii) Provisions of adequate reserves for Depreciation, and the like.

These are, of course, the features which one would expect to find in an efficient business, and then the question asked by the manufacturer is, if he is hampered by uncertainty of tenure, uncertainty of markets, shortage of capital, what is he to do to restore his business to its previous level? I am not going to claim for one moment that even if an accountant can diagnose successfully the troubles from which a business is suffering he is able to cure his patient, because the cure may depend upon the supply of medicines, drugs, and the like, which are entirely unobtainable by the patient. I think the best method of approach however, is for the accountant to suggest certain well known principles which obtain in an efficient, well run business, and then see how these can be adapted to the particular business he is investigating, and in this connection, I think, the procedure is somewhat as follows:

(1) The board should decide upon all matters of principle, and in my opinion, it is always advisable to have as members of the board some who are actively engaged in the business, and have a technical and skilled knowledge of it. I am also going to suggest that, generally speaking, a board does not suffer because it has as one of its directors an accountant, who is there in a professional capacity, and acts as financial adviser.

(2) The board having decided upon the principles, instructs its managing director as its chief executive officer, and he, in turn, so organises his business that he has a capable departmental head for each department:

(*a*) Production.

(*b*) Sales.

(*c*) Administration.

For (*a*) the production manager must of course be technical almost entirely;

(*b*) Sales manager; he must also be technical, in that he must have a knowledge of the particular business;

(*c*) Administration: The secretary is in charge of the administration, and has the assistance of the chief accountant, who is also technical in his particular duties.

There are various other heads of departments, such as advertising, transport, warehouse, purchasing, chief engineer, and the like, but having decided upon the main heads it is quite a simple matter to sub-divide. In my view, however, sub-divisions are sometimes necessary, but one wants to guard as far as possible against sub-dividing too extensively, because one often finds that the head of a department, although it is a job that he can do himself without any assistance, as soon as he is designated as the head of a department attaches to himself a secretary, office boy, &c., with the object of glorifying his office. That kind of thing is useless and does not tend to economy, which, as Sir Ernest Benn said the other day over the wireless, means "wise spending." The secretary of a company, as you know, is an officer of the company under the Companies Acts, and as such has certain duties to perform; but his work

does not cease with this, as he is the person on whom the managing director relies for the proper administration and smooth-running of the internal administration of the business, because the managing director ought not to feel that he has to bother himself about ordinary routine matters. I have not touched much upon advertising at present, but there is no doubt that economy in advertising expenditure, or wise spending on advertising, is very necessary for the progress of any business, whatever it may be. Advertising to-day is a very different proposition to what it was a few years ago, when the managing director possibly drew up an advertisement and sent it round to the advertising agent, who inserted it in the papers and took his commission. To-day, the modern advertising agent studies the problem of salesmanship from the inside of the factory as well as from the outside, and he is out to give his client the benefit of the merchandise experience which he has gained in businesses having similar problems. He will prepare schemes for advertising and submit them to the executive; he will prepare schemes for selling, and submit these also, and the cost to the firm engaging him is very little more than the commission he previously used to receive for simply placing the advertisements in newspapers. The question which firms have to face sometimes is as to whether they shall employ an advertising manager, or whether they shall engage advertising agents to carry out or supplement the duties of the advertising manager. In my view, the advertising agents have an opportunity of taking a more detached point of view than the advertising manager, who is actively engaged in the business all day long, and sometimes, to use a colloquialism, "cannot see the wood for trees." The accountant having a seat on the board as the financial adviser, should attend all board meetings if there is anything of a financial nature to be discussed, and I think if he is to do his job properly, particularly if the business is in a precarious condition, he must be prepared to spend a considerable amount of time on it, and be at the call of the managing director, who will want, no doubt, to discuss problems with him as they arise, instead of waiting for the monthly board meeting. This kind of work is very exacting, particularly during the first few months of a reconstruction, but if the work is worth doing at all, it is worth doing well, and the accountant, if he is successful, has the satisfaction of seeing the business, which was formerly inefficient, become efficient, and which was formerly making losses, making profits.

During this short paper I have endeavoured to show, I am afraid in a very sketchy way, the manner in which an accountant can be useful to a business, and I have purposely not made it too long because I feel that all you people, consisting as you do of accountants, bankers, and secretaries, would like to have an opportunity of discussing the various problems I have endeavoured to touch upon, and I shall now be only too pleased, as far as I am concerned, to give you that opportunity and to answer any questions you may like to put to me, to the best of my ability.

Incorporated Accountants' District Society of Belfast.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' Belfast and District Society was held in the Grand Central Hotel, Belfast, on February 1st, Mr. J. D. THOMPSON, the President, occupying the chair. There was a representative attendance of members, and the guests included the Lord Mayor of Belfast (Sir Crawford McCullagh), Mr. G. B. Hanna (Parliamentary Secretary to the Ministry of Home Affairs in Northern Ireland), Mr. J. F. Gordon (Parliamentary Secretary to the Ministry of Labour), Mr. W. D. Scott, C.B.E. (Permanent Secretary to the Ministry of Commerce), Mr. Henry Morgan (President of the Society of Incorporated Accountants and Auditors), Mr. J. Crawford Shaw (President of the Belfast Society of Chartered Accountants), Mr. Samuel Smyth (President of the Institute of Chartered Accountants in Ireland), Mr. W. R. Maconkey (Comptroller and Auditor-General), Mr. S. F. Jackson (President, Belfast Insurance Institute), Mr. R. E. Herdman, D.L. (Chairman, Belfast Harbour Board), Mr. W. J. McGuffin (President, Belfast Co-operative Society), Mr. D. Hollywood (President, Belfast Auctioneers' and Estate Agents' Institute), Mr. David Adams (Chairman of the Belfast Water Board), Mr. M. R. Whitham (Secretary, Belfast Chamber of Commerce), Mr. M. J. Watkins (Secretary and General Manager, Belfast Harbour Board), Mr. M. G. Charlesson (Secretary, Belfast Wholesale Merchants' and Manufacturers' Association), Mr. J. B. McCutcheon, Professor F. T. Lloyd-Dodd, M.A., Professor H. O. Meredith, M.A., Professor John Earls, B.A., and Mr. J. Elliott Forde.

The CHAIRMAN proposed the toast of "The King," which was duly honoured, and subsequently that of "The City of Belfast." At the present time, he said, Belfast was suffering severely from the terrible economic depression arising from causes which, in his opinion, were remediable and capable of human solution. In 1918, after four years of war, they found themselves a victorious but badly shaken nation. Foreign trade had been brought to a standstill, and there was a complete disorganisation of all national activity, but the people of these islands put their shoulders to the wheel to overcome all the difficulties which beset their economic life. Within seven years, the country recovered to such an extent that its wealth and the material comfort of its people were as great as in 1914. At the same time, no great constructive effort had been made to ensure that such a recovery had been placed upon a secure foundation. It was a mere scramble of nations to obtain the greatest amount of material prosperity in the shortest possible time, aggravated by the payment of huge sums in reparations and war debts, mainly to the United States and France, and fluctuations and want of stability in currencies.

Having sketched the conditions which led up to the abandonment of the Gold Standard, Mr. Thompson said this step had greatly altered the situation in Great Britain, and industry for the moment benefited. The problem of costs was temporarily solved, whilst internal trade revived and the rise in wholesale prices brought about by the fall in sterling had had a beneficial effect. That benefit, however, was only temporary, and so long as world conditions were so depressed as now they could not look for any substantial recovery in Great Britain. Whether sterling became stabilised immediately did not seem to be of prime importance. In his view, it would be more advantageous for them to maintain their present money policy and not

return to the Gold Standard until such time as they were assured that other nations were prepared to co-operate more in working it properly than they had done in the past. Mankind now found itself in the position of being capable of supplying every want, yet with millions of unemployed. That was not the result of the failure of man's will to produce, but his failure to organise effective distribution. No one dare prophesy even for a short time ahead, but their troubles were no greater than in 1918, and as a nation they could, with their old spirit of enterprise and energy, overcome all difficulties which were capable of solution. (Applause.)

The LORD MAYOR OF BELFAST, who responded, indicated that there would be an increase in the rates owing to unemployment. True economy was not to stop all progress, but wise spending and the circulation of money would be of the greatest advantage to the community. If, he went on, trade was good, accountants knew it first, just as they knew when trade was bad. No matter what took place, it was wise to place their figures before those who represented them, and then, in the long run, they would be well served. He was glad to say that things were looking better and brighter than for some time.

Mr. R. E. HERDMAN, D.L., Chairman of the Belfast Harbour Commissioners, proposing the toast of "The Society of Incorporated Accountants and Auditors," said he wondered how many of them realised that the profession of accountancy was one of the very oldest in the country. It was known that accountants were employed in the reign of Edward the First, and they were mentioned in the Statutes of Westminster. A book on book-keeping had been published in London by John Gough in 1543. The methods employed in that day were very much the same—indeed, they were founded on what was done in Venice when it was one of the great trading states of the world. He thought it was not until about 1840 or 1850 that the profession of accountancy came more prominently to the fore as the result of the creation of railway companies. The Society of Incorporated Accountants had been started in 1885, and their numbers at present were 5,664, many of them in different parts of the world. He was glad to think that he had not to go through the three examinations. (Laughter.) The first qualification for an accountant was character and rectitude. Then they had to pass three examinations, but personally he thought one would be enough. (Hear, hear, and laughter.) It surprised him to know that in the last examination, out of 810 candidates, only 390 succeeded. Still he thought it spoke well for the qualifications which were necessary for an accountant. Someone had said that when they were employing a salesman they should look for an optimist, but when they were employing someone to examine their books they should look for a pessimist. He saw no sign of pessimism there, and he thought to-day it was the poor salesman who was the pessimist—rather in the position of Mr. Micawber—waiting for something to turn up.

Mr. HENRY MORGAN (President of the Parent Society), responding to the toast, expressed thanks for the hearty welcome and hospitality extended to him, and said that he was nearing the termination of his period of office, and one of his most pleasant experiences had been his visits to Belfast. Continuing, he said: On several occasions recently I have referred to certain matters regarding the published accounts of public companies which, ever since the proceedings in the *Royal Mail* case, have constantly been a prominent feature in the financial papers and journals, and in the financial columns of our daily newspapers. When I last had the honour of visiting the Yorkshire District Society at Leeds, in December last, I referred to certain aspects of the profit and loss account, and to-night I shall make a few observations upon the balance sheet. It is interesting to consider the provisions in the Companies Acts relating to balance sheets and auditors. Going back to the 1862 Act, that Act itself contained no provision as to the issue of a balance sheet or the appointment of an auditor. Table "A" of the first Schedule, however, which contains regulations for management of a company limited by shares, provided that a balance sheet should be made out in every year, and laid before the company in general meeting, and that an auditor, or auditors, should be appointed. As, however, it was optional for a company either to adopt the regulations contained in Table "A" or to have its own Articles, it was not obligatory upon the directors of a company either to issue a balance sheet or to have the accounts audited. Annexed to Table "A" was a form of balance sheet providing for fairly detailed information, but as Table "A" was hardly ever adopted in the case of a public company, balance sheets seldom followed this form. It was not until the passing of the Companies Act, 1900, that there was a statutory obligation upon every company to appoint an auditor. Sect. 23 of that Act refers to a balance sheet, but imposes no obligation to issue one, and there is no indication either as to its form or contents. In 1908 there were some important alterations in the law relating to companies, but I cannot find in the Companies (Consolidation) Act of 1908 that there is any definite obligation upon directors to publish a balance sheet, and certainly there is no provision as to its form and contents. It was not until 1929, when the last Companies Act was passed that, for the first time —nearly seventy years after the passing of the 1862 Act —there was statutory recognition of the right of shareholders in public companies to receive a balance sheet with definite requirements as to the form and contents. The wording of the particular sections is very definite—"The directors of every company shall"—not "should"—and therefore every company must comply with these requirements. But whereas the Act is bristling with penalties upon directors for failing to file returns, for not furnishing copies of balance sheets, and for other shortcomings, there appears to be no penalty for publishing a balance sheet which does not comply with the provisions of these sections as to the minimum information to be contained therein. I am also unable to see that a shareholder so aggrieved would have any remedy in law. What safeguard then, it may be asked, have shareholders that the benefits of these sections are assured to them? In my opinion, nothing, except that which is provided by the certificate of the auditor, that the balance sheet is properly drawn up, *i.e.*, in accordance with the requirements of these sections—and that it shows a true and correct view of the state of the company's affairs. When the auditor does not certify to that effect, what happens? He qualifies his certificate, but the qualification, if it follows the forms usually adopted and regarded as proper, may give no indication as to the amount involved by such qualification. It would not, therefore, make good the defect in the balance sheet, which as a means of enabling shareholders to form an opinion as to the position of the company, may be almost valueless. The provisions relating to the contents and form of a balance sheet, and the information to be disclosed to the shareholders in relation thereto are contained in sects. 123 to 128 of the 1929 Act. The requirements under these sections should do, and in fact, have done much to remedy some of the unsatisfactory features of published balance sheets, but, in my opinion, there are still certain respects in which amendment is necessary. Following a practice which has existed for many years past, balance sheets are frequently drawn up so as not to disclose the existence or amount of reserves,

and there is some argument amongst members of our profession as to whether or not such a practice is in accordance with this latest Act. Sect. 123 (2) refers to a reserve fund, general reserve, or reserve account being shown specifically on the balance sheet. Sect. 124 (1) provides that every balance sheet shall contain, *inter alia*, a statement of its liabilities and its assets, together with such particulars as are necessary to disclose the general nature of the liabilities. The auditor's certificate has to state whether the balance sheet is *properly* drawn up "so as to show a *true* and *correct* view of the state of the company's affairs." As accountants, we know that a balance sheet which does not disclose a "free" reserve cannot be strictly correct, and it certainly cannot be true, and if reserves are included in liabilities, the balance sheet cannot contain a statement of liabilities. I maintain that on the wording of these sections, the non-disclosure of reserves in the generally accepted sense of the term is not permissible, but if it is intended to permit the concealment of reserves either by over-stating liabilities or by understating assets, then if only in fairness to members of our profession the Act should clearly say so. Sects. 125 and 126 relate to subsidiary companies. There are few, if any, features of public company practice that have been subject to more serious abuse during recent years than the principle of the holding and subsidiary companies. In these sections there is recognition of the evil, but, in my opinion, these provisions are not an adequate remedy. Sect. 125 provides that holdings in, and indebtedness to or by subsidiary companies shall be clearly and separately stated in a holding company's balance sheet. No one will quarrel with that, but the provisions of the next section are in marked contrast. Sect. 126 deals with profits and losses of subsidiaries, and it requires it to be stated how such profits and losses have been dealt with in the accounts of the holding company. In so far as profits or losses have not been fully taken into account, there is no requirement to state the amount involved in such omission, and this may rob a balance sheet of much of its value as a document purporting to show the position of a company. As we know in practice, compliance with this section is apparently considered as being met by the use of such words as "profits of subsidiary companies have been taken credit for only to the extent of dividends declared." No information is given as to the amount of profit carried forward, which may be very considerable, and just as real an asset of the holding company as the debt that may be owing to it. Sub-sect. (2) of sect. 126 provides for disclosure of any qualification of the certificate of the auditor of a subsidiary company. This may be quite useless as a means of ensuring that anything unsound or irregular in the accounts of a subsidiary company is brought to the notice of shareholders of the holding company because, as Mr. Hill, the President of the Institute of Chartered Accountants, so clearly pointed out in a recent speech, a very simple but perfectly legal method is available to directors who want to evade the requirements of this sub-section. Prior to the 1929 Act, twenty-one years had elapsed since the previous important changes in Company Law, and I have heard the argument put forward that two years is hardly sufficient time to enable the effect of the 1929 Act to be seen. My reply is that the Committee upon whose recommendations the Act was founded took its evidence in 1925 and the early part of 1926, and that there have been some notable changes in public company practice during the last six years. Is it not certain that if that Committee had had placed before it all that happened during 1928, 1929 and 1930, its recommendations would have been of a very different and more drastic character? Then, last year, we had the *Royal Mail* case, which has exposed the dangerous weaknesses of the law in regard to the published balance sheets and accounts of public companies. It has been stated that regard must be had to the fact that the Royal Mail was a chartered, not a statutory company, but I would point out that the Royal Mail was the head of a large group of companies, and that many of the weaknesses and unsatisfactory features of the balance sheet and accounts existed also in the case of other members of the group, all of which were statutory companies. If the provisions of the 1929 Act had applied to the Royal Mail Company in 1926 and 1927, the only respects in which the balance sheet would have had to be altered were (1) that the values of the fleet and investments in subsidiary companies must have been separately stated, and (2) that there must have been a statement in regard to the profits of subsidiary companies, which in this case would have been amply met by the formula, "the profits of subsidiary companies have been taken credit for only to the extent of dividends actually declared." Stockholders and the public would have been no better off, and, therefore, it may rightly be said that in the 1929 Act there are no provisions which of themselves would cure such grave defects in accounts as were so clearly evident in the case of the Royal Mail. There are many things in connection with public companies which may be perfectly legal, but which may be quite unsound and improper, judged by accountancy and commercial standards, and, therefore, it is necessary that we should endeavour to get the law tightened up, especially as regards companies' published accounts. The unprecedented trade depression and collapse of prices and currencies throughout the world rendered it inevitable that investors would suffer enormous losses, but in many cases these losses have been greatly added to by the deplorable exploitation of the public within the last few years. The investing public requires to be protected against a recurrence of such methods, and, in my opinion, nothing will contribute more to that end than insistence on true and accurate accounts, from which can be seen not only the actual position of a company, but its true profit-earning capacity. Concluding, Mr. Morgan referred to Mr. Herdman's remarks regarding the examination standards of the Society, and said that it was a vital matter in the interests not only of the Society, but of the commercial public, that their Society, one of the leading bodies of professional accountants in the Kingdom, should maintain that high standard of examinations. That they were determined to maintain that standard was shown by the figures which Mr. Herdman gave them. The proposer of the toast had also referred to pessimism, but there was no need for pessimism so far as the Society was concerned. Its record was one of continuous progress, and the members could rest assured that no effort would be spared on the part of the Council in promoting the interests and maintaining the high standard of its members. The Belfast Society was one of the most active and progressive of their District Societies. It had been immensely encouraging to come there and see the energy that was being displayed, not only by the President and members of the Committee, but by every member of the district with whom he had come in contact. He felt certain the District Society would continue to progress, and that its efforts would result in promoting the interests of the Parent Society and the members who were resident and practising in that important industrial part of the Kingdom. (Applause.)

Mr. JAMES BAIRD, F.S.A.A., proposed the toast of "The Legal Profession." He said that the relations between the two professions were very cordial, and had always been very happy. He thought it was excellent advice by the Lord Mayor to trust their accountant as

they did their solicitor or doctor. The only difference he could see between the two professions was that accountants were supposed to work from records and certify what they knew, whereas members of the legal profession always acted on instructions.

Mr. G. B. HANNA, M.P., replying, said it was better that they should have records in the Statutes of Westminster than at Scotland Yard. The President had drunk the health of the legal profession, but one would imagine from his speech that he wanted to ruin them, and to make the lives of the lawyers dull, drab and uneventful. (Laughter.) So far as he could see, the only difference between the two professions was that the lawyers dealt with facts and the accountants with figures. (Laughter.)

Mr. D. T. BOYD, B.Com.Sc., F.S.A.A., Vice-President, proposed the toast of "The Guests," and Mr. SAMUEL SMYTH, F.C.A., President of the Institute of Chartered Accountants in Ireland, referred to the speech of Mr. Morgan, and said the happiest relations existed between the Chartered body and the Incorporated body. They pulled together amicably and, when matters of serious moment arose, they consulted together. To the younger men in the profession, he would say that they had the privilege of carrying on in a profession which was growing in responsibility, and which required not only courage, but intelligence to fulfil its duties. Mr. J. S. Thompson, Inspector of Taxes, also responded, and said the relations between the Society and his own department had never been better than to-day. It was all to the good that they should know each other outside as well as inside the office.

Society of Incorporated Accountants and Auditors.

Dinner in the Guildhall, London.

The Council have made arrangements for a dinner of the Society in the Guildhall, London, E.C. (by kind permission of the Lord Mayor and Corporation), on Thursday, April 14th, 1932, at 6.45 for 7.15 p.m. Mr. Henry Morgan, President of the Society, will occupy the chair. The Lord Mayor has accepted the invitation to be the principal guest.

The price of each ticket is 35s. inclusive of wine and cigars, for members and their personal guests (gentlemen only). It is requested that early application for tickets may be made to the Secretary at Incorporated Accountants' Hall. Applications should reach Incorporated Accountants' Hall not later than Thursday, March 24th. Tickets must necessarily be allotted in the order of receipt of applications.

Special arrangements have been made for hotel accommodation and railway facilities. A communication in regard to the dinner has been posted to all members of the Society.

QUESTIONS IN PARLIAMENT.

Income Tax.

Mr. HUTCHISON asked the Financial Secretary to the Treasury whether he was aware that a number of Income Tax payers, either through ignorance or in consequence of the complicated nature of the formalities to be carried out, do not claim the Income Tax refunds to which they are entitled; and whether he would consider taking steps to simplify the necessary procedure by including with every Income Tax form sent out a reminder as to how and on what grounds refunds of Income Tax might be reclaimed?

MAJOR ELLIOTT: I cannot agree that the position is as suggested in the first part of my Hon. Friend's question. In reply to the second part I would point out that information such as he has in mind is issued with every kind of Income Tax form to which it is relevant. Furthermore, Inspectors of Taxes are definitely instructed to offer repayment, without waiting for specific request by the taxpayer, where the particulars available make it clear that a repayment is due.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

ADAMS, WILLIAM, Borough Treasurer, Town Hall, Wolverhampton.

HALL, ARTHUR HODGKINSON (Stanley Blythen & Co.), 12, Low Pavement, Nottingham, Practising Accountant.

HOLLIDAY, CHARLES AUGUSTINE (Holliday, Robertson, and Co.), Empire House, St. Martin's-le-Grand, London, E.C.1, Practising Accountant.

MENZIES, WILLIAM DOUGLAS (H. Menzies & Co.), Fife House, Fife Road, Kingston-on-Thames, Practising Accountant.

RIDGWAY, PHYLLIS ELIZABETH MARIE, B.A. (Butterell and Ridgway), 21, Parliament Street, Hull, Practising Accountant.

ROSS, SYDNEY HAMPTON, A.C.A. (Percy Smith, Seth and Fleming), 6, Des Voeux Road, Central, Hong Kong, Practising Accountant.

SARGEANT, ALBERT CHARLES (Johnson & McCree), 19, Burg Street, Cape Town, Practising Accountant.

WHITE, HENRY EDWIN (Slattery & White), 14, Clarges Street, Mayfair, London, W.1, Practising Accountant.

WOOD, LEONARD STANLEY, M.B.E., A.C.A. (Barker Brothers & Wood), Regent House, 89, Kingsway, London, W.C.2, Practising Accountant.

ASSOCIATES.

APLIN, LEONARD HENRY HILL, Clerk to W. W. Beer, Aplin & Co., 17, Bedford Circus, Exeter.

AUSTIN, JOHN FARLAM, Factory Accountant, Jonathan Harris & Son, Limited, Derwent Mills, Cockermouth (formerly Clerk to Jackson, Saint & Co., Carlisle).

BARKER, JOSEPH WILLIAM, Clerk to Armitage & Norton, Martins Bank Chambers, Bradford.

BARLOW, THOMAS, Clerk to William Wing & Son, Stirling Chambers, Campo Lane, Sheffield.

BATEY, ROBERT LANCELOT, Clerk to E. J. Williams & Co., 14, Lowther Street, Carlisle.

BECKETT, ROWLAND EWART, Clerk to Walter J. Edwards, International Exchange, 156, Edmund Street, Birmingham.

BENNION, HAROLD, Clerk to F. Geen & Co., Victoria Chambers, Liverpool Road, Stoke-on-Trent.

BESWICK, ERNEST MORLEY, Clerk to Donald H. Bates and Co., 10, Cheapside, Hanley, Stoke-on-Trent.

BOWEN, THOMAS WILLIAM MATHIAS, Clerk to Alban and Lamb, 11, Pembroke Terrace, Cardiff.

BRAHMAYYA, PARVATANENI, B.A., Clerk to G. E. Stringer and Co., 15 and 16, Thavies Inn, London, E.C.1.

BRAY, FRANK SEWELL, Clerk to Tansley, Witt & Co., Old Serjeant's Inn Chambers, 5, Chancery Lane, London, W.C.2.

COLDRICK, ALBERT FRANCIS EDWARD, Clerk to Bourner, Bullock & Co., 17, Albion Street, Hanley, Stoke-on-Trent.

CRAGGS, THOMAS, Clerk to Chipchase, Wood & Co., 125, Albert Road, Middlesbrough.

CROOKENDEN, WILLIAM EDWIN, Accountant's Department, Metropolitan Water Board, 173, Rosebery Avenue, London, E.C.1.

DANDEKER, NARAYAN, B.Sc., B.Com., A.C.A., Assistant Collector, Indian Civil Service, South Ascot, Cuddalore, N.T., India (formerly Clerk to W. F. A. Cooper, London).

ELLIOTT, THOMAS ALAN, Clerk to W. T. Walton & Son, Scarborough Street, West Hartlepool.

EVANS, STANLEY JAMES, Clerk to Woolley & Waldron, Blue Peter House, 8 and 10, Portland Terrace, Southampton.

EWART, JOHN, 8, Queen Street, Cardiff, Practising Accountant.

FAIRCLOUGH, FREDERICK CHARLES, Clerk to Holmes and Turner, Arcade Chambers, Wigan.

FILBY, HERBERT EDWARD, Clerk to Harold Carter, Son and Co., 6-7, Queen Street, Cheapside, London, E.C.4.

FROOME, HARRY, Clerk to A. C. Mole & Co., Stafford House, Billetfield, Taunton.

FULLER, HENRY HERBERT, Clerk to Barton, Mayhew and Co., Alderman's House, Bishopsgate, London, E.C.2.

GHOSH, SIDHARTHA KUMAR, B.Sc. (formerly Clerk to S. R. Batliboi & Co., 9, Grant Lane, Calcutta, India).

GIBBINS, HAROLD JAMES RANDALL, Travelling Auditor, Companhia Souza Cruz, Rio de Janeiro, Brazil (formerly Clerk to Kilby & Fox, Northampton).

HALFPENNY, JOHN WILLIAM, B.Comm., Clerk to Kevans and Son, 1-2, Westmoreland Street, Dublin.

HAYHOW, HENRY, City Treasurer's Department, Town Hall, Newcastle-upon-Tyne.

HELMORE, LEONARD MERVYN, Audit Department, Ministry of Health, Whitehall, London, S.W.1.

HOLLAND, WALTER, Clerk to Cooper-Parry, Hall, Doughty and Co., 102, Friar Gate, Derby.

HOLLOWAY, FRANCIS ERIC, Clerk to Fredk. W. Harris and Co., 28, New Bridge Street, London, E.C.4.

HORLER, RONALD VICTOR, Clerk to Edwards & Edwards, 22, High East Street, Dorchester.

HOWARD, REGINALD PERCIVAL, Deputy Borough Treasurer, Municipal Offices, Watford.

HUMPHRIES, JOHN HENRY, Assistant Borough Treasurer, Town Hall, Milton Road, Stoke Newington, London, N.16.

HUNTER, WILLIAM ELLIS, formerly Clerk to F. A. Cawson, Webster & Co., 34, Castle Street, Liverpool.

HUTCHINSON, JOHN, Clerk to Greaves & Co., Prudential Chambers, Bank Street, Carlisle.

ILES, LESLIE JAMES, Colston Chambers, 14, Colston Street, Bristol, Practising Accountant.

JONES, EVAN MORRIS, Clerk to Edwin Guthrie & Co., 71, King Street, Manchester.

JONES, EDWARD WICKERSON, Exchequer and Audit Department, Audit House, Victoria Embankment, London, E.C.4.

KAY, NORMAN NEWISS, Clerk to Fredk. C. Crosland & Co., 10, Park Row, Leeds.

MAGEE, JAMES OWEN, Clerk to Silversides, Slack and Barnsley, 44, Bedford Row, London, W.C.1.

MALLABAR, JOHN FREDERICK, A.C.A. (*Ireland*) (J. F. Mallabar & Co.), British Columbia House, 1, Regent Street, Waterloo Place, London, S.W.1, Practising Accountant.

MATTHEWS, LESLIE ROWDEN, Clerk to Alfred Nixon, Son & Turner, 31, 35 and 48, Victoria Buildings, St. Mary's Gate, Manchester.

MITCHELL, LINDEN EWART, City Treasurer and Controller's Office, City Hall, Cardiff.

MOUNTAIN, WILLIAM ANTHONY, Clerk to C. T. Jessap, Barlow Chambers, Skegness.

MOUNTER, ERNEST WALTER, Deputy Accountant, Treasury Solicitor's Department, Storey's Gate, London, S.W.1.

NAYLOR, MAURICE, Clerk to John Potter & Harrison, 22, Birley Street, Blackpool.

NEWSOME, GRAHAM HEATHCOTE, Clerk to T. Booth Brown, 63, Deansgate Arcade, Manchester.

OLLIFFE, ERNEST GEORGE, Clerk to W. G. Olliffe, 8, Bush Lane, Cannon Street, London, E.C.4.

PADGET, WILFRED JOSEPH, Clerk to Harry Davey, 1, Crown Court, Wakefield.

PICKERING, ARTHUR DIGBY, Clerk to Brown, Butler and Co., 66, Albion Street, Leeds.

PICKERING, GEORGE ATKINSON, Victoria Buildings, 21, Grainger Street West, Newcastle-upon-Tyne, Practising Accountant.

PRESCOTT, WILLIAM BOWEN WEBB, Clerk to Cooper and Kenny, 34, Dame Street, Dublin.

REID, HIRAM, Borough Treasurer's Department, Municipal Buildings, Middlesbrough.

RENDALL, CHARLES, Clerk to Creasey, Son & Wickenden, 12, Lonsdale Gardens, Mount Pleasant, Tunbridge Wells.

RHODES, GEORGE THOMAS, Borough Treasurer's Office, Town Hall, Widnes.

RILEY, WILLIAM, Clerk to H. J. Davidson & Co., 33, King Street, Manchester.

ROGERS, ERIC WALTER, Clerk to Holman, Foxcroft and Jackson, 11, Queen Victoria Street, London, E.C.4.

ROLLINSON, FRED, Clerk to Pulleyn, Creer & Co., 8, Coppergate, York.

SMALLBONE, LIONEL HUGH, Clerk to Perkins, Copeland and Co., Bolton Chambers, Eastbourne.

SMITH, JOHN NAPIER, City Treasurer and Controller's Office, City Hall, Cardiff.

SMITH, LEONARD, Deputy Accountant, Urban District of Finchley, Council Offices, Church End, Finchley, London, N.3.

SOUTHON, SYDNEY JAMES GARNET, Clerk to Barton, Mayhew & Co., Alderman's House, Bishopsgate, London, E.C.2.

STREET, HAROLD, Borough Treasurer's Department, Town Hall, Wolverhampton.

THOMPSON, WILLIAM DANIEL, Clerk to John Rowley and Co., 10, Market Street, Leicester.

TOMLINSON, HAROLD, Clerk to Harper, Pilling & Co., 25, Acresfield, Bolton.

TOMLINSON, WILLIAM SPENCER, Clerk to F. Geen & Co., Victoria Chambers, Liverpool Road, Stoke-on-Trent.

TOZE, ARTHUR WILLIAM, Clerk to H. R. Michael (J. E. Denney, Bogle & Co.), Finsbury Pavement House, 120, Moorgate, London, E.C.2.

TREVELYAN, PERCY, Clerk to Armitage & Norton, Atlas Chambers, King Street, Leeds.

TRIFFITT, WILLIAM LAWRENCE, Clerk to Charles H. Wilson and Co., 7, Greek Street, Leeds.

WATSON, THOMAS, Accountant's Department, County Council of Durham, Shire Hall, Durham.

WELCH, SIDNEY FRANCIS, Clerk to A. C. Roberts, Wright and Co., 9-10, Pancras Lane, Queen Street, London, E.C.4.

WELLS, HARRY, Clerk to Butterfield & Hartman, City Chambers, 2, Darley Street, Bradford.

WHALLEY, JOHN REUBEN, Clerk to Perkins, Copeland and Co., Bolton Chambers, Eastbourne.

WHITELEY, ARTHUR JAMES, Clerk to Alfred Nixon, Son and Turner, 31, 35 and 48, Victoria Buildings, St. Mary's Gate, Manchester.

WHITTINGHAM, SIDNEY, A.C.A. (Styler, Fray & Whittington), 1, Dickinson Street, Manchester, Practising Accountant.

WILSON, THOMAS GRIFFITHS, Clerk to Henry Pell & Co., 63A, Princes Street, Stockport.

WILSON, WILLIAM STANLEY, Clerk to Thoseby, Son & Co., District Bank Chambers, Market Street, Bradford.

WRIGHT, FREDERICK WALTER, Clerk to H. P. Gould and Son, 8, Upper King Street, Norwich.

ACCOUNTANTS' CLAIM UNDER AN INDEMNITY POLICY.

Mr. Justice MacKinnon, in the King's Bench Division last month, had before him an action in which Messrs. Moore and Smalley, Chartered Accountants, of Chapel Street, Preston, Lancs., claimed a declaration that they were entitled to be indemnified under a policy of insurance against any loss arising from any claim made against them in the conduct of their business.

The defendant was Mr. Edgar Hosken, an underwriter, of Lloyds, Leadenhall Street, London, who issued the policy.

Mr. A. T. Miller, K.C., and Mr. H. D. Samuels (instructed by Messrs. Grundy, Kershaw, Samson & Co., agents for Mr. Thomas H. Kevill, Chorley, Lancs.) appeared for the plaintiffs, and Mr. Hosken was represented by Mr. Tom Eastham, K.C., and Mr. Phillip Vos (instructed by Mr. William Charles Crocker).

Opening the case for the plaintiffs, Mr. Miller stated that Messrs. Moore & Smalley were a prominent firm of Chartered Accountants, and among their many appointments was that of auditors to the borough of Preston.

In February, 1929, they entered into a policy of insurance with the defendant. Towards the end of that year a claim was made against them by a Preston garage proprietor named Bradshaw, who alleged that the plaintiffs were negligent in failing to detect in his books defalcations of his manager. The manager was subsequently sentenced to eighteen months' hard labour for embezzlement, and Mr. Bradshaw claimed £5,105 from the plaintiffs.

Messrs. Moore & Smalley now claimed that amount from Mr. Hosken under the terms of the policy of insurance.

Mr. Hosken defended the action on the grounds that there was a breach of warranty on the part of the plaintiffs, or, alternatively, that they had suppressed material facts.

Mr. Miller had not finished his opening when the Court adjourned for lunch. When the parties returned to Court Counsel consulted with Mr. Justice MacKinnon in private.

Following the consultation, Mr. Eastham announced that Mr. Hosken had agreed to pay the plaintiffs £3,500 to include costs. Mr. Eastham added that the defendant was satisfied that when Mr. Smalley (the senior partner in the plaintiff firm) placed the insurance he had no knowledge of the circumstances which led up to Mr. Bradshaw's claim against his firm.

Mr. Miller said that he was satisfied that in the circumstances the settlement was a fair one.

Mr. Justice MacKinnon approved the settlement, and said that by coming to terms the parties had saved themselves a good deal of time and expense.

Incorporated Accountants' Society of Manchester and District.

ANNUAL DINNER.

The Incorporated Accountants' Society of Manchester and District celebrated its 46th anniversary at a dinner held in the Midland Hotel, Manchester, on February 22nd. Mr. JOSEPH TURNER, F.S.A.A. (the President), was in the chair, and among those present were the Deputy Mayor of Manchester (Alderman G. F. Titt), Mr. Henry Morgan, F.S.A.A. (London), President of the Parent Society, and representatives of the legal, banking, and accountancy professions, and of the local Department of the Inspection of Taxes.

His Honour JUDGE T. B. LEIGH, of the Manchester County Court, proposed the toast, "The Society of Incorporated Accountants and Auditors—its Branches and District Societies." He said that accountants sometimes assisted at the birth of a legal entity called a company, and sometimes they had something to do with the prospectus. The best advice he could give them was to be cautious, and if any legal problem arose in relation to the prospectus to take no responsibility for it. Only the other day he had to investigate some accounts which he had been told were certified by a practising accountant. When he examined the accounts this was, he observed, the accountant's certificate: "This is a true copy of the accounts of So-and-So as appearing in the books." Accountants could not be too cautious. Occasionally towards the end of the life of the infant there were operations to perform. An accountant was called in to act as receiver, or perhaps something had to be written off capital because it was no longer represented by any assets. Again, he hoped the Parent Society advised its members that when any legal questions arose it would be wise for them to limit the nature of the certificate they might give. When all was over the accountant had other work to do—the task of winding up. But he need hardly urge the Society to impress upon its members that they were rendering greater service to the commercial community by keeping it upon the right lines than by the process of winding up. Concluding, Judge Leigh paid a tribute to the energy, zeal, and high professional integrity of the Manchester District Society.

Mr. HENRY MORGAN (President of the Parent Society) said it was a particular pleasure to respond to the toast when it was proposed in such charming and felicitous terms as it had been by Judge Leigh. Turning to the question of the accounts of public companies and referring to the profit and loss account, Mr. Morgan said:—I have examined the Companies Acts and, so far as I can see, the term "Profit and Loss Account" does not appear in any of them until 1929, when—as we know—it was provided that every public company must submit to its shareholders a profit and loss account, or—what is practically the same thing—an income and expenditure account. Unfortunately, no indication is given as to what the form and contents of such accounts shall be. I use the word "unfortunately" because, whereas the 1929 Act did much to abolish many unsatisfactory features in the compilation of balance sheets, the practice in regard to the presentation of profit and loss accounts continues, in many cases, to be open to grave criticism. It should be remembered that in the absence of a profit and loss account drawn up in accordance with sound accountancy principles, a balance sheet may be of less value than a statement of affairs. The balance sheet and profit and loss account are each the complement of the other, and

anything that is inaccurate or unsound in the one must be reflected in the other. The principles upon which a balance sheet is drawn up and the basis upon which the values of fixed assets are stated therein, are such that earning capacity is a vital consideration. As Lord Plender so clearly states, "Whatever the book value of fixed assets may be, their real value lies—with certain exceptions—in their earning capacity." If, therefore, the profit and loss account does not show clearly and correctly the true profits of a company, the balance sheet loses much of its value as showing the real position of a company. I fully recognise the difficulty of arriving at a definition as to the form and contents of the profit and loss account. The businesses carried on by joint stock enterprises differ so greatly in character that a form of profit and loss account appropriate to one class of company might not meet the requirements of companies of a different type. Obviously, therefore, a certain amount of elasticity in the compilation of profit and loss accounts is necessary. Surely, however, it is possible to lay down certain minimum requirements. A fundamental necessity is that a profit and loss account, like the balance sheet, should be *true* and *correct*. There now appears to be general agreement amongst accountants that the utilisation of a reserve, disclosed or otherwise, to minimise the loss or increase the profit, should be clearly shown, with the amount, in the profit and loss account. From many points of view, however, an under-statement as to profits, through the creation of an undisclosed free reserve, is unsound and cannot be reconciled with the certification of a balance sheet as being true and correct. I suggest that all debits or credits of an abnormal, extraneous, or non-recurrent character should be separately stated, with the amounts, otherwise one is misled as to the actual profit earning capacity of the company.

After careful consideration, I am definitely of opinion that the general practice of auditors does not comply with sect. 134 (1) of the Companies Act, 1929, which provides that :—

> "The auditors shall make a report to the members *on the accounts examined by them*, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state :—
>
> (*a*) Whether or not they have obtained all the information and explanations they have required ; and
>
> (*b*) Whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company."

The ordinary form of auditors' certificate does no more than comply with (*a*) and (*b*), and it is not the practice for auditors to make a report "on the accounts examined by them." It cannot logically be argued that compliance with (*a*) and (*b*) satisfies the requirements of the section, for if it does the words "on the accounts examined by them" are redundant.

In my view sect. 134 (1) of the Companies Act, 1929, requires the auditors to make a report, firstly, "on the accounts examined by them" and, secondly, "on every balance sheet laid before the company in general meeting," such report stating, *inter alia*, whether the auditors "have obtained all the information and explanation they have required" for the purposes of their report on the accounts and on the balance sheet, and whether the balance sheet is "properly drawn up so as to exhibit a true and correct view of the state of the company's affairs."

If this interpretation of sect. 134 (1) is legally correct, or if the governing bodies of the accountancy profession ruled that such an interpretation should be observed by their respective members, the auditor would become responsible for the profit and loss account as issued to shareholders and he would have to report upon it as one of the accounts examined by him.

Pending amending legislation, which in my opinion is urgently necessary, practising accountants can do much to cure many of the unsatisfactory features in the published accounts of companies. After all, the law is not the measure of our responsibilities and obligations as Incorporated Accountants, who have been and will continue to be guided by a code of ethics for which legislation does not, and often cannot provide. The dominant note of the important section of the Act defining the auditors' duties is contained in the words "true and correct." We must remember that the appointment of an auditor is provided for, in order to ensure that the accounts submitted to the shareholders are true—that is, free from the risk of giving a false impression—and correct—that is, in accordance with sound accountancy principles—and it is only by a proper recognition of our obligations in these respects that we can continue to justify our description as "the watchdogs of the shareholders." (Applause.)

Mr. NEVILLE J. LASKI, K.C., who proposed the toast of "Commerce and Finance," said that the speech just delivered by Mr. Morgan was of great interest not only to accountants, but to lawyers, and of particular interest to members of the investing public. Our banking system had stood four-square to all the winds of adversity. It had not witnessed the many crashes which the banking system of the United States had suffered. Although disaster was presaged when we went off the gold standard, we were still riding securely in the midst of the greatest economic storm that history had ever known.

Mr. THOMAS KEENS (President of the London and District Society) said that the world crisis could not yet be considered to be over. There were at the present time disturbing factors which prevented them from being wildly optimistic. We had made a change in our fiscal system. It might be heresy to say so in Manchester, but he thought the change was absolutely necessary. In any event they would all agree that protection was by no means sufficient in itself. There were many other problems to tackle, but the manufacturer was provided with an opportunity to overhaul his organisation and to re-equip himself to meet modern conditions.

Mr. J. BROATCH (Editor of the *Manchester Guardian Commercial*) also responded.

Mr. GODFREY CRAVEN (Vice-President of the Manchester Society) proposed the toast of "The Guests," which was acknowledged by Mr. H. BRADBURN (general manager of Williams Deacons Bank Limited) and Mr. W. E. MYLAM (H.M. Principal Inspector of Taxes, Manchester District).

Mr. F. Whittingham, C.C. (of Messrs. T. Whittingham and Co., Limited, printers of the *Incorporated Accountants' Journal*), has been elected Chairman of the City Lands Committee of the Corporation of London, and in this capacity is recognised as the Chief Commoner of the Court of Common Council.

AUDITORS AND DIRECTORS.

In the Chancery Division, before Mr. Justice Eve, a motion by the plaintiffs in the action *Taylor and Others* v. *Euston Mills Foods* (1921), *Limited, and Others*, was moved by Mr. Swords, K.C.

Mr. Swords said the motion asked for an injunction to restrain the defendants from laying before the adjourned annual general meeting of the defendant company any profit and loss account or balance sheet for 1931 other than the profit and loss account and balance sheet audited by the plaintiffs, Mr. Taylor and Mr. Perry, with their report attached thereto; and further to restrain the defendants from excluding the plaintiffs from the adjourned annual general meeting of the company.

Mr. Swords said the motion raised a very important question as to the rights of auditors. The conduct of auditors had been called into question in a number of cases recently, and the plaintiffs felt that it was their duty, having audited the accounts and made a report, to insist that the balance sheet with their report should be submitted to the general meeting of the company which had been called. Mr. Taylor and Mr. Perry were, it was claimed, at the material times auditors of the defendant company, and the third plaintiff, Mr. F. H. Gribble, was a shareholder in the company. The defendants were the company and all the directors. Mr. Taylor and Mr. Perry became partners with Mr. Charles C. Smith, on June 10th, 1931, in the business of Chartered and Incorporated Accountants carried on under the name of Charles C. Smith & Co. There was no question that Charles C. Smith was the duly appointed auditor of the defendant company. Mr. Smith died on June 12th—two days after the partnership.

Mr. Taylor and Mr. Perry carried on the business till December 1st in partnership. On July 14th, 1931, the defendant company directors passed a resolution appointing Charles C. Smith & Co. auditors of the company. They had been informed that Mr. Taylor and Mr. Perry had been taken into partnership and were the sole partners. The company sent a copy of their balance sheet for 1931 to the auditors, and the auditors in their report on it made certain statements.

They also said that in the circumstances they should attend the general meeting of the company and make a statement. On December 17th, 1931, the directors issued a notice convening a general meeting of the company for December 29th, 1931. They did not send out any copy of the balance sheet and auditors' report as required by the Act, but they sent out a notice that as a casual vacancy had arisen in the office of auditor it was impossible to circulate the report and accounts in time for the meeting.

The meeting, however, had to be called to satisfy the Act and would be adjourned. Apparently the defendants treated the plaintiffs as no longer auditors because they had on December 1st sold their business to a Mr. Wright, who took it over on December 2nd. Defendants claimed that Mr. Taylor and Mr. Perry were no longer auditors, and they had appointed another firm of accountants as auditors.

Mr. Justice Eve: Do you say a casual vacancy had not arisen?

Mr. Swords: Yes. These two gentlemen were still the auditors. But whether there was a casual vacancy or not when this meeting was held, the only balance sheet and auditors' report in existence was the balance sheet sent to my clients, in respect of which they had issued their report. We are not seeking to force ourselves on the company, but we consider it is our duty to see that our report is laid before the shareholders.

Mr. Cohen, K.C., who appeared with Mr. J. W. Lindon for the defendants, said after the report was received from the auditors their authorised representative saw the directors, and after that the directors came to the conclusion that certain matters did require reconsideration, and in the circumstances they could not circulate the balance sheet. It was also agreed that Mr. Taylor should have an opportunity of attending the meeting and making any statement he desired.

Mr. Justice Eve: Suppose the directors having received the report say, "we must investigate this," do you say they must go to the shareholders and say, "we are going to put before you this balance sheet, but this has happened, and the auditors draw our attention to it. We have had a revaluation and we must recast our balance sheet."

Mr. Swords: I do not say the balance sheet cannot be altered, but I say in this case it was not. We say that having been employed and made a report on the balance sheet which was treated by the directors as a final balance sheet, there is an obligation on the directors to furnish the shareholders with a copy of the balance sheet and report and submit it to the meeting.

Mr. Justice Eve: Is a revised balance sheet ready now?

Mr. Swords: There is exhibited now a revised balance sheet audited by another firm of auditors.

Mr. Justice Eve: Has the adjourned meeting been called?

Mr. Cohen: No; it could not be called while these proceedings were pending.

Mr. Justice Eve: If Mr. Taylor attended the meeting he could say what he wanted, and wash his hands of the whole affair.

Mr. Swords said the shareholders had a statutory right to have the balance sheet and report disclosed to them. He asked that the defendants should be restrained from laying before the adjourned meeting any balance sheet and report without also submitting the balance sheet and report in question.

Mr. Justice Eve said he need not trouble Mr. Cohen to reply, and he did not feel justified in making the amended order asked for. The auditors had thought it right to make criticisms of certain items in the balance sheet, which was presented to them in the same way that they had been for the preceding eight years. The auditors took up rather a strong position and the directors were not prepared to accept their view. Time was running on, the general meeting had to be called, and the directors decided to get the necessary information and if possible circulate a corrected balance sheet and such certificate relating to it as they could obtain in the time. When notice of the meeting was sent out it was not accompanied by any balance sheet, and to that extent the directors were in default, but if proceedings had been taken no doubt merely a nominal penalty would have been imposed, and there would have been an assurance by the directors that they were proposing to lay a revised balance sheet and auditors' report before their shareholders.

No Court could say that it was the directors' duty to put forward a balance sheet which it was now admitted could not be justified and that they should be prevented from putting forward a balance sheet showing the true financial position. The most any Court would do would be to say that the directors must explain the position to

the shareholders and make a complete and full disclosure of all the circumstances. In the long run an honest disclosure was far more profitable than any partial disclosure. Upon the defendants undertaking that the old auditor should have the opportunity of attending and making a statement at the adjourned meeting, the Court did not see its way to make any order on the motion.

NATIONAL INSURANCE AUDIT DEPARTMENT.

Eighteenth Report.

The following are extracts from the Report on the work of the National Insurance Audit Department for the year 1931. The Report deals with the work of the Department during the year ended December 31st, 1931, under sects. 72 (1) (*a*) and 82 of the National Health Insurance Act, 1924. It also covers the work of the Department in connection with certain audits undertaken by Treasury directions other than under the afore-cited sections.

The number of persons actually serving in the Department at December 31st, 1931, inclusive of all grades in the Department's organisation, was 433, of whom 417 were established or other permanent officers and 16 were temporary employees; the last-mentioned are employed in vacancies on the Clerical and Typing Grades of the permanent establishment. At the said date one established officer was seconded to another service. The staff included 84 Chartered and Incorporated Accountants.

Of the aforesaid staff of 433 actually serving, 18 were at the Head Office, 410 were attached to 26 Divisional and Audit Offices and 9 sub-Offices throughout Great Britain, and 5 were stationed in Belfast to carry out duties undertaken by the Department on behalf of the Government of Northern Ireland in pursuance of arrangements made under sect. 63 of the Government of Ireland Act, 1920.

Each of the auditors with his staff of assistants and clerks is charged with a group of audits and is permanently located in an audit office at a convenient centre; the auditors' districts are grouped into five divisions, each under an Inspector of Audit who is responsible for direction, progress, and general organisation; and the whole work is conducted under the control and general direction of the Chief Auditor.

The audit offices and sub-offices are located in towns convenient for the audit of the larger societies and branches whose audits must necessarily be done where the books are kept, and the books of the smaller units in outlying areas are called into the said offices. It is necessary to undertake certain large audits elsewhere than in the towns where the Department's offices are situate, but those represent less than 5 per cent. of the total number of units coming under audit. In a few cases small units have shown reluctance to send their books to the audit offices, but no acute difficulty has arisen; considerations of economy of staff and in travelling expenses must outweigh all other factors in such cases, apart from exceptional circumstances affecting the efficiency of the audit.

REPORTS OF AUDITORS.

In relation to the accounts other than the Investment Accounts, there have been issued in the year ended December 31st, 1931, 8,285 certified accounts of approved societies and branches, comprising payments amounting to £28,487,309. Of these accounts, 5,650 were certified without reservation and 2,635 were certified subject to reservations set forth in the accompanying Reports or embodied in the audit certificates. Judged by the proportion of the accounts which were certified in the respective years with and without reservation, the standard of societies' and branches' efficiency in administration and accounting showed some improvement in the accounts audited in 1931, the percentages of accounts certified without reservation in the three years 1929 to 1931 being 63.7, 67.3 and 68.2 respectively. It has to be recognised that the apparently low standard of business and accounting efficiency suggested by these figures is compensated, in some measure at least, by the practical administration of the benefits. Nevertheless, there is scope for improvement in the administrative and accounting methods of societies and branches; there is still undue reliance upon the audit staff for guidance in difficulty and for correction of defects.

SOCIETIES' RECORDS.

During 1931, 1,092 accounts of societies were certified; of these, 683 were certified without reservation and 409 subject to reservation. The reservations reported relative to these 409 cases have been classified to disclose the frequency of the several defects. The total shows 63 reservations for every 100 society accounts certified; the corresponding number of reservations in the preceding year was 61.

Incorporated Accountants' Students' Society of London.

ANNUAL MEETING.

The Annual General Meeting of this Society was held at Incorporated Accountants' Hall on February 16th, the President, Sir Stephen Killik, J.P., occupying the chair.

Sir Stephen Killik, in moving the adoption of the Report and Accounts, congratulated the members upon the satisfactory nature of the accounts, which showed a surplus for the year of £316 2s. 9d. During the past year 391 new members were elected, which showed that the Society was very much alive. The President drew attention to the "Transactions" for the year 1930-31, constituting the 35th annual volume published, and comprising verbatim reports of the various lectures delivered during the year. These included many valuable addresses on matters which, although not actually coming within the scope of the accountant's daily work, were of intense interest and value in giving him that broad outlook on economic life which was necessary to the adequate conduct of his professional business.

The following officers were appointed for the ensuing year: President, Sir Stephen Killik, J.P., F.S.A.A.; Vice-President, Mr. G. Roby Pridie, F.S.A.A.; Committee, Mr. W. Strachan, F.S.A.A., Mr. S. T. Morris, A.S.A.A., Mr. A. A. Garrett, M.A., B.Sc., Mr. M. J. Faulks, M.A., F.S.A.A., Mr. H. E. Colesworthy, A.S.A.A., A.C.A., Mr. C. E. Wakeling, A.S.A.A., Mr. W. D. Menzies, A.S.A.A., Mr. L. H. Plumpton, and Mr. F. R. Witty; Hon. Treasurer, Mr. A. R. King Farlow, F.S.A.A., F.C.A.; Secretary, Mr. James C. Fay; Hon. Auditor, Mr. W. H. Payne, F.S.A.A.

41st Annual Report.

The Committee have pleasure in presenting their Forty-First Annual Report and Accounts for the year ended December 31st, 1931.

The accounts show a surplus for the year of £316 2s. 9d. The entrance fees amount to £97 15s., and the annual subscriptions to £599 14s. The Committee again desire to express their thanks to the Council of the Parent Society for their continued financial support.

MEMBERSHIP.

During the past year, 391 new members were elected. At December 31st, 1931, there were 1,565 members on the roll, consisting of 171 honorary members in practice, 137 honorary members not in practice, and 1,257 ordinary members.

REVIEW OF THE SOCIETY'S WORK FOR THE PAST YEAR.

The usual meetings were held during the Spring and Autumn sessions, and lectures were delivered by the President, Sir Stephen Killik, J.P., and members of the accountancy profession upon a variety of important subjects which come within the scope of the accountant's duties and practice.

The Society is greatly indebted to the gentlemen who have been good enough to deliver lectures, whose names appear below, and especially to those who are not members of the Parent Society.

Certificates of Merit were awarded to six members of the Students' Society in the Final examination, and three Place Certificates in the Intermediate examination.

The following is a list of lectures and discussions held during the Spring and Autumn sessions :—

Spring, 1931—

"Some Post Slump Problems." By Mr. J. C. Rea Price, City Editor *News-Chronicle and Star.*

"General Principles of Factory Costing." By Mr. Percy H. Walker, Incorporated Accountant.

"Blackboard Demonstrations of Typical Problems in Trust Accounts." By Mr. H. A. R. J. Wilson, F.C.A., Incorporated Accountant.

"Mechanisation in English Banks." By Mr. C. R. Robson.

"Money, Prices and Trade." By Mr. A. A. Garrett, M.A., B.Sc., F.C.I.S., Secretary, Society of Incorporated Accountants and Auditors.

Autumn, 1931—

"The Soviet Five Year Plan." By Mr. G. Soloveytchik, M.A. (Oxon).

"Taxation as an Economic Factor." By Mr. W. J. Back, Incorporated Accountant.

"The Principles of Commerce." By Sir Francis Goodenough, C.B.E.

"Britain and International Trade." By Mr. E. E. Edwards, B.A., LL.B., Parliamentary Secretary, Society of Incorporated Accountants and Auditors.

"The Stock Exchange." By Sir Stephen Killik, J.P., President of the Society.

"TRANSACTIONS."

The 35th volume of "Transactions" for the year 1930-31 has been published and distributed among the members.

EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

The following students obtained Honours in the Parent Society's examinations during the year 1931 :—

MAY.—*Final:* Mr. J. C. Russell, Fifth Certificate of Merit; Mr. G. B. Pearson, Sixth Certificate of Merit; Mr. C. E. B. Somerville, Eighth Certificate of Merit; and 60 passed the examination. *Intermediate:* Mr. W. C. Gould, Third Place Certificate; and 76 passed.

NOVEMBER.—*Final:* Mr. R. P. Howard, First Certificate of Merit and First Prize; Mr. F. S. Bray, Fifth Certificate of Merit; Mr. G. M. Dowrick, Sixth Certificate of Merit; and 31 passed. *Intermediate:* Mr. H. P. Dalal, Second Place Certificate; Mr. F. R. Hews, Fourth Place Certificate; and 63 passed.

Under Rules 3 and 5, the Officers and Members of the Committee, and under Rule 10 the Honorary Auditor retire from office. The members of the Committee, the Honorary Treasurer, and the Honorary Auditor, being eligible, offer themselves for re-election.

Incorporated Accountants' District Society of Liverpool.

ANNUAL DINNER.

The annual dinner of the Society was held on February 18th. The PRESIDENT (Mr. Alexander Hannah) was in the chair, and was supported by the Lord Mayor of Liverpool (Alderman James C. Cross, J.P.), Mr. E. Cassleton Elliott (Vice-President, the Society of Incorporated Accountants and Auditors), Mr. H. Graham White, M.P. (Assistant Postmaster-General), Professor T. E. Gregory, D.Sc. (Cassel Professor of Banking, University of London, and Professor of Social Economics, University of Manchester), the Mayor of Southport (Councillor W. H. Bellis, LL.B.), Mr. H. R. Graves (President, Liverpool Society of Chartered Accountants), Mr. G. Cameron Ollason, C.C. (Vice-President, Liverpool Chartered Accountants' Students' Association), Mr. F. J. Winchester (President, Liverpool Branch of the Chartered Institute of Secretaries), Mr. Ronald Miller (Hon. Secretary, Liverpool Branch of the Chartered Institute of Secretaries), Mr. W. H. Perry (President, Liverpool Provision Trade Association), Mr. W. F. Bushell, M.A. (Headmaster, Birkenhead School), Rev. R. W. Howard, M.A. (Headmaster, Liverpool College), Rev. C. F. Russell, M.A. (Headmaster, Merchant Taylors School, Crosby), Mr. E. D. Symond (Registrar of the Liverpool and Birkenhead County Courts), Mr. James Allcorn (Official Receiver), Mr. J. Gregory (Principal Inspector of Taxes, Liverpool), Mr. Percy F. Corkhill, C.B.E. (Secretary to the Lord Mayor of Liverpool), Mr. Ernest E. Edwards, B.A., LL.B. (Parliamentary Secretary, the Society of Incorporated Accountants and Auditors), Mr. Alan Standing (Past President of the Liverpool Society), Mr. Arthur E. Piggott (Hon. Secretary, Manchester and District Society), Mr. Joseph Turner (President, Incorporated Accountants' Society of Manchester and District), Mr. Albert E. Stringer (President, Incorporated Accountants' Bradford and District Society), Mr. Leslie Lewis (President, Incorporated Accountants' Society of Sheffield), Mr. E. S. Goulding (Vice-President, Liverpool District Society), Mr. Charles M. Dolby (Past President and Hon. Treasurer of the Liverpool Society).

The PRESIDENT proposed the toast of "The Lord Mayor and the City of Liverpool." He said that he was not a pessimist, but there was little doubt that Liverpool was in the throes of a struggle for its existence as one of the foremost ports in the Empire. Whilst the repetition of gloomy facts was depressing, it was necessary in order that one might consider the remedies which might possibly be experimented with to advantage. He used the word "experimented" advisedly, for they were living in a world of experiments. Parliament was at this moment contemplating the experiment of tariffs on a scale which meant success or failure. Then, again, the nations of the world were discussing the experiment—hitherto undreamed of—of national disarmament. The League of Nations was an experiment of no mean order and was being put to the test by the situation in the Far East. Experiments with the Gold Standard and managed currencies were being considered, and the experiment of rationalisation had been tried for some years. His predecessor in that chair—Mr. Dolby—said two years ago that rationalisation might well prove a greater danger than individualism, and he felt that the shipping industry was an illustration. The position of that great industry could not become much worse, and he urged decentralisation and a return of its control into the hands of men who had been born and bred and trained in the atmosphere

of the sea and shipping. (Hear, hear.) It was, he continued, probably a platitude to say that Liverpool had consistently been most fortunate in the choice of its Chief Magistrate. Alderman Cross had shown a devotion to duty that could not be excelled. His great record of service in the Council was known to them all. He had been and was truly the servant of the city. (Applause.)

The LORD MAYOR, in responding, said that he had been pondering the subject of careers and he had come to the conclusion that he would have liked to have been an accountant; it must be wonderful to be a wizard with figures. (Laughter.)

Mr. H. GRAHAM WHITE, M.P. (Assistant Postmaster-General), offered the toast of "The Society of Incorporated Accountants and Auditors." It was very reassuring, he said, that there should be met there that night such a large number of gentlemen who were able to spare time from the anxious and harassing task of attempting to balance their own budgets and those of other people, and come there to take part in a festival of that kind. (Laughter, and hear, hear.) He was glad to know that the Society was strong and flourishing, that it existed to preserve sound standards of public and private finance, that it served to protect the investing public, and also to save from insanity the ever-increasing number of individuals who were perplexed and bewildered by the intricacies of Income Tax forms. (Laughter.) He thought its services in that respect quite outweighed those of the medical profession. (Renewed laughter, and hear, hear.) He knew that it was a strong Society, that it was well prepared to take counsel to preserve its professional standards, and to give advice to those members requiring it, in a profession which was not without its difficulties. In fact, from reading of certain legal cases, which he had noticed in the last few months, he thought accountants must often wonder where the duties of the accountant left off and those of the detective began. This was a time of specialisation and of specialists. He had been envying accountants their facility with figures, especially during the last six weeks when he had been pitchforked for the time into a position where he had some little responsibility for almost the biggest business in the world—a business which in the course of the last year handled no fewer than 6,475 million letters, 161 million parcels, 58 millions of registered letters and packages, 51 millions of telegrams, and no fewer than 1,493 millions of telephone calls, without including two or three wrong numbers. (Laughter.) Since he had been connected with the Post Office he had been surprised, not that there should be many mistakes—for indeed the number of mistakes made in all its departments was infinitesimal in comparison with the volume of work which it carried out—but at its amazing efficiency. (Hear, hear.) The Post Office was in a sense a barometer of the commercial and economic activity of the country, and in all its branches—and they were very numerous—it was satisfactory to know that on the whole, although its business like every other had suffered to some extent through the trade depression, its revenues were well maintained. Particularly was that the case with regard to the telephone system. During 1931 they reached the enormous number of 2,000,000 telephone installations in this country, and that at a time when in every other big telephone-using country in the world they had not only ceased to make advances in the number of installations, but had found it exceedingly difficult to maintain the number they had at the beginning of the year. They ended the year with 2,040,000 telephones in active operation and were by no means contented with that. (Hear, hear.) The telephone system of this country was becoming increasingly efficient. They were studying all developments and those which might be adopted with benefit in this country were being introduced as rapidly as might be. He was glad to think that there was a Society such as that of which his hearers were members, who were under no economic delusions, and who were the guardians of our system of finance, who would do their best to help the people individually and as a country, through the difficulties they were facing. (Applause.)

Mr. E. CASSLETON ELLIOTT (London), Vice-President of the Society of Incorporated Accountants and Auditors, in responding, said he was delighted to have the pleasure of responding to the toast and of expressing his acknowledgments to Mr. Graham White, the Assistant Postmaster-General, for his speech. It was a source of personal satisfaction to be the Vice-President of a professional body which by its work and membership, now some 5,700, had shown remarkable progress. He would like to pay his tribute to the labours of those who had guided the Society's policy in the past, and of those who had maintained its interests in different parts of the country. He offered his wholehearted congratulations to the Liverpool District Society upon what it had accomplished in its own sphere and upon what its leading members had contributed to the life of the larger body of Incorporated Accountants, of which it formed a part. The President (Mr. Hannah) undertook and carried out in a most thorough and acceptable way the duties of Hon. Secretary for many years, and his successor, Mr. Bertram Nelson, had already shown ability and much promise in the duties of his office. He was very glad that this toast had been proposed by the Assistant Postmaster-General, because, as one of the Ministers responsible for a revenue-earning Department of the Government, he had to face in a practical way the type of difficulties which confronted every business man, and especially the members of their profession at the present time. The Post Office was very efficiently run. Correspondents to the newspapers, and others, at various times of the year, were somewhat free in their criticism of the Post Office, and occasionally one saw a paragraph that a letter posted thirteen years ago had at last been delivered. As against that the commercial community would be only too willing to express its indebtedness to the Post Office for the admirable service which it rendered in post, telegraph, and telephone, and if, by any chance, mistakes did arise the inquiry was courteously dealt with as expeditiously as possible. The problem of "What to do with our boys" had always been with them and it was never more accentuated than at present. That Society, by its close consideration of the question of professional training and education for the accountancy profession, had been mindful of its urgency. The overcrowding of a profession should be avoided, and the policy of the Society of Incorporated Accountants had been to exercise control by imposing a high standard for admission—not with a view to keeping people out, but to ensure that those who came in could both fulfil and create the demand for their services. To the problem of "What to do with our boys" had been added the problem of the prospects of the young qualified man in all the professions. The position was happily not so acute in their profession as in others, though accountancy had inevitably been affected by the depression. But he refused to judge that question merely from the standpoint of the immediate and difficult present. In addition to such opportunities as might come to the young Incorporated Accountant for public practice, he believed that the leaders of commerce and industry would find among those who held the Society's qualifications, men whose training was second to none in fitting them for positions of responsibility and initia-

tive. There was plenty of scope for the young qualified accountant in the world of commerce, but to be successful in that sphere he should be, what he would call for the sake of a better term, an accountant with a commercial mind. (Hear, hear.) Speaking in the presence of bankers, members of the Chamber of Commerce, economists, and members of his own profession, he thought it would be agreed that in their own respective spheres they had endeavoured to meet the demand for public information on the present financial and business situation, in the light of their experience or research. Whilst discussing the question of information, he did not think it would be out of place to mention that the Society had appointed a special committee to consider the evidence adduced at the trial of the chairman and auditor of the Royal Mail Steam Packet Company, and to report whether any amendment of the law was deemed necessary, and what (if any) alteration of a voluntary character might be considered advisable in the compilation of company accounts or their certification by professional auditors. That matter was having the constant attention of the special committee, and although he did not wish to anticipate its findings, he thought all accountants would agree with the paragraphs in *The Times* recently on the subject of Balance Sheets and Profit and Loss Accounts. The substance and form of the profit and loss accounts should engage the serious attention of the auditor, because the value of a company's assets must largely depend upon its earning capacity. The more informative the balance sheet and profit and loss account were, the better from the point of view of the shareholders and the public. The position of auditors had been strengthened in that they were consulted more than previously by directors in the presentment of the balance sheet and profit and loss account. They were very glad to see there Professor Gregory, and they were indebted to him and to other economists for the lucid information they had given to the public on the significance of the events of last year. The practical work of economists was demonstrated by the visit of Professor Gregory with Sir Otto Niemeyer to Australia, which had resulted in so much advantage to that country. Economists, business men, industrialists, bankers and accountants, were all hard at work to disperse the vicious circle which at long length seemed to have been broken. (Hear, hear.) Differences of opinion on financial questions there must be, but in his view, at the present time there was greater consensus of opinion on certain essentials of financial policy than existed a short time ago. (Hear, hear.) The present job of the Incorporated Accountant was an intensely practical one. It was to advise his client how to produce and distribute his goods at a price both competitive and reasonably profitable, how to meet his trade and tax liabilities, and how to maintain adequate capital. That was the contribution which accountancy was making to the major national problem which confronted them. Professor Gregory had said that finance was essentially the process of linking up the supply of funds with the demand for them. The accountancy profession was concerned to see that those funds were applied in the most profitable way; in other words, to secure the highest financial and administrative efficiency in commerce and industry. That work was carried on just now within painfully narrow limits, and in his view a reduction of direct taxation and a cheapening of money would offer opportunities which had long been denied to them. Speaking from practical experience, he thought the economists had rightly insisted on the beneficial effects of cheap credit facilities, but he would emphasise the serious and cumulative effects of direct taxation, which had a crippling effect on progressive business. The country wanted neither blind optimism nor confirmed pessimism. They had grounds for confidence and hope. The extraordinary strength of our banks at the greatest financial crisis of modern times, and the refusal to permit inflation in any part of our financial system, indicated that past experiences had not been forgotten. Sound principles of national finance had retrieved an almost hopeless situation in this country. It was only by sound principles in international finance and international trade that the nations could arrest and defeat the world-wide economic depression. (Applause.)

Mr. CHARLES M. DOLBY (Past President, Liverpool Society), submitting the toast of "Industry and Finance," said industry must come before finance, and not after it. Industry married finance, and instead of finance continuing to be the handmaiden of industry, industry became the handrag of finance. (Laughter, and Hear, hear.) At the moment he thought a judicial separation was the best way of describing the position, and the taxpayer had the custody of the children. (Renewed laughter.) But it must never get to the stage of divorce, because industry and finance must be bound together everlastingly, so that the one could render to the other that service which was indispensable to the welfare of the trading community. (Hear, hear.) At a time like this, when those having capital at their command were nervous and apprehensive, it seemed to him that the banking institutions of the country had a great opportunity of rendering to the trading community, particularly the small trader, that service which had been so conspicuously absent in the past. The vast liquid resources concentrated in the hands of the big banks represented the very life blood of industry. Only by a free and vigorous circulation of that life blood could the health of industry be restored. So far as industry was concerned an equally grave danger lay in the policy by which nation ceased to trade with nation, each confining itself behind a barrage of import duties which made impossible that ebb and flow of trade and commerce which was fundamentally necessary to-day as it was 100 years ago. The courage, tenacity of purpose, and ability to compete, so far as quality was concerned, with any other country were attributes which had always characterised the British industrialist. Given that co-ordination, goodwill, and honesty of purpose which were so vitally necessary to success, industry and finance could carry this country from success to success, and bring back to us that prosperity and happiness which were our national heritage. (Applause.)

Professor T. E. GREGORY, D.Sc., replied to the toast. He had devoted two years' hard labour to elucidating the mysteries of industry and finance, and the precise effect of that two years' work had been that, with one very honourable exception, none of the chairmen of the great banks, in their statements at annual meetings, had thought it worth while to refer, even in the most cold and distant and polite manner, to the efforts of the Macmillan Committee. He noticed a certain acidity of tone, even, in the remarks of the gentleman who was kind enough to propose that toast. He rather seemed to imply that the normal relations between industry and finance were those of the married couple on the eve of the declaration of divorce. It would be very misleading, and altogether very unfair, if the British public decided to draw a line of opposition and of conflict between the interests of finance and those of business. Finance was a great industry; it earned for this country an enormous annual income, and we ought to be just as careful about the nterests of finance as we were about the interests of British business. (Hear, hear.) There was probably no

country in the world at the present time in which the business man was obtaining short-term credit at a lower rate than he was obtaining it at the present moment in this country. (Hear, hear.) He regretted the disappearance of the private banker, because he believed that one of the great dangers of this age from which we suffered, and from which we would continue to suffer for some time to come, was the belief in size for its own sake. Still more did he regret the disappearance of the small regional provincial joint stock bank. The scale upon which modern business was conducted demanded a spreading of risk, and a growth in the scale of business involved apparatus of the size and scale of the British joint stock bank to-day. (Hear, hear.) It was impossible to expect the working of British finance to be perfect, or even better than it was now, until they had re-educated the British investor. (Hear, hear.) Mr. Elliott had already referred to one side of that particular problem. It was quite true that immense sums of money had been literally wasted in the last six years by the subscriptions of the British public to concerns which had never earned a penny in dividend and which were largely now in liquidation. But no finance house could protect the public against its own follies. If the public believed there was an endless golden rain from heaven, accruing from investments in artificial silk shares, then the banker who advised against such shares would be simply neglected. It was no use proclaiming against the wickedness of company promoters. Economists, accountants and professional men generally must undertake the most enormous task they had ever faced—the task of re-educating the British public. (Hear, hear.) The greater part of the difficulties of the moment were due, *not* to the imperfections of the existing mechanism, but to the fact that times and circumstances were changing so fast that it was almost impossible for even the quickest-witted amongst them to keep in touch with them. It might surprise them to learn that the joint stock banks of the country had not to that day, so far as he was aware, adopted a common point of view towards the problem of the Lancashire cotton industry. He believed himself that the very next step in the reorganisation of English banking consisted in teaching the joint stock banks that there was such a thing as taking a broad view of the economic problems of the country. He believed they were unrivalled in their appreciation of the problems of any particular firm, and of any particular branch banking problem, but he did not believe that they had that wide, cultural outlook and appreciation of the services which disinterested science could bring to business, which certain Continental bankers had, and which certain bankers in London had. (Hear, hear.)

Mr. CHARLES TUNNINGTON, F.S.A.A., proposed the toast of "Our Guests."

The MAYOR OF SOUTHPORT (Councillor W. H. Bellis), who replied, said accountants filled a very important part in the business life of the country. They were described along with lawyers as "necessary evils." All he could say was that the public found much comfort in seeking the assistance of those "necessary evils." If the public only sought that assistance at an earlier stage many of their troubles would be averted. He hoped that before long the law would be so altered that no one without qualifications would be allowed to set himself up as an accountant. (Hear, hear.)

The Rev. R. W. HOWARD (Headmaster of Liverpool College), who also responded, said there was a very close relationship between the educationist and the accountant; they both illustrated in their different careers the inner significance in figures.

Mr. ERNEST E. EDWARDS (Parliamentary Secretary of the Society of Incorporated Accountants and Auditors) offered the toast of "The President of the Incorporated Accountants' District Society of Liverpool." He said before Mr. Hannah was elevated to the position of President, in which they welcomed him that night, he was Honorary Secretary of the Liverpool District Society, and rendered signal service to the Society for many years. He congratulated Mr. Hannah on having gathered there that night such a galaxy of oratorical talent. (Hear, hear.) They welcomed Mr. Graham White, a distinguished member of the National Government, and the other notable guests present. He would like also to couple with his toast the name of Mr. Bertram Nelson, the Hon. Secretary, who had done so much for the success of that gathering. (Hear, hear.)

The PRESIDENT, in making acknowledgment, said that toast should really have been to the Committee of the Society, who had all worked so ably and loyally in promoting the success of the dinner. Particularly he would like to mention his friend and successor in the Honorary Secretaryship, Mr. Bertram Nelson, who had put in an enormous amount of work with the greatest success possible. (Hear, hear.)

Reviews.

Incorporated Accountants' Year Book, 1932. *Published by the Society of Incorporated Accountants and Auditors at Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.*

This Year Book contains the names of 5,664 members, of which 1,448 are Fellows, 4,213 Associates, and 5 Honorary members, of whom two are also Fellows. The book is compiled on the same lines as hitherto, the first portion containing an alphabetical list of members and firms with their addresses, the names of the firms being printed in italics. The list embodies the names of all the members and the firms in which any of them are partners. The second portion is a topographical list of members and firms arranged in alphabetical order of the towns in which they are located, without regard to the part of the world in which those towns are situated. A paged index thus becomes unnecessary. Following the list of members are the Society's Articles and Bye-laws, with the last Annual Report and Accounts, and the rules and regulations of the Incorporated Accountants' Benevolent Fund. Altogether the volume constitutes a very complete record of the Society's membership and constitution.

Pitman's Commercial Self-Educator. *5th Edition. Edited by Robert W. Holland, M.A., M.Sc., LL.D. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2. (In three volumes. 1,058 pp. Price 45s. net.)*

This publication is intended for the use of young students who are entering commercial life, and is devised so as to be supplementary to knowledge acquired by practical experience. The matter is divided into main subjects, such as English, commercial history, shorthand, digesting returns into summaries, book-keeping, card indexing, foreign languages, economics, company meetings, secretarial work, auditing, banking, currency, import and export trade, salesmanship, &c. Each subject has been dealt with by an expert, the method of treatment being lessons and exercises with answers. The intention is that the student should select the subjects which are likely to be most useful to him and concentrate upon these rather than endeavour to acquire a superficial knowledge of a large number of subjects. In each case the student proceeds from the elementary to the more advanced stage, so that previous knowledge is not required.

The present edition has been revised and rearranged, some of the lessons having been re-written and new subjects added. The text is written in simple form so that the meaning may be easily understood.

Redman's Law of Arbitrations and Awards. *5th Edition. By William E. Watson, Barrister-at-Law. London: Butterworth & Co., Bell Yard, Temple Bar, W.C.2.* (424 *pp. Price* 30*s. net.*)

The author of this well known work is a Past President of the Institute of Arbitrators, and is therefore well qualified to deal with the subject. The volume is very comprehensive, presenting a complete statement of all points of law and practice affecting the conduct of an arbitration. The appendix contains the statutes and sections of statutes bearing upon the subject. Anyone acting in the capacity of arbitrator will find in this work reliable information on all points likely to arise, and easy reference is facilitated by a full index.

Cropper's Accounting. *5th Edition. By F. D. Morris, F.C.A., and A. K. Fison, B.A., F.C.A. London: Macdonald & Evans, 8, John Street, Bedford Row, W.C.1.* (1,116 *pp. Price* 21*s. net.*)

Mr. Cropper's book has long been known as a standard work on accounting. It covers a very wide range of subjects in very substantial detail, including the accounts of joint stock companies, partnerships, insolvency, costing, banking, hire purchase, assurance, foreign exchange, income tax and executorships, each subject being followed by a set of examination questions which students will find valuable for testing their knowledge.

Economics for Commercial Students. *9th Edition. By Albert Crew, Barrister-at-Law. Assisted by W. G. H. Cook, LL.D., M.Sc. (Econ.), and Laurence Ashmore, M.Com. London: Jordan & Sons, Limited, Chancery Lane, W.C.2.* (504 *pp. Price* 5*s. net.*)

The revision of this edition of Mr. Crew's book is mainly the work of Mr. Ashmore, and special attention has been paid to the requirements of candidates for professional examinations, including those of the Society of Incorporated Accountants and Auditors, the Institute of Chartered Accountants and the Chartered Institute of Secretaries. The general form of the work is the same as before, and pains have been taken in the careful arrangement of the matter and the provision of a very full and complete index.

Economics. *By A. L. Gordon MacKay, M.A., M.Econ. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (216 *pp. Price* 5*s. net.*)

This is another book on economics of a somewhat different type. The matter is more condensed, and the author's endeavour has been to write simply and at the same time to avoid giving the reader the impression that the subject is easier than it really is. The essentials of economics are presented in simple form free from technicalities, and the reader is instructed as to where the difficulties really lie.

Practical Aspects of Taxation. *By A. W. Rawlinson, F.C.A., and R. Hunter, A.C.A. London: Gee & Co. (Publishers), Limited, 8, Kirby Street, E.C.1.* (120 *pp. Price* 6*s. net.*)

A number of the difficult problems of Income Tax are discussed in this little book which assumes on the part of the reader a good general knowledge of the subject. The endeavour of the authors is to assist in the solution of the more difficult problems that arise from time to time in relation to income tax matters, such as reliefs under the various schedules, exemptions of charities, casual profits and isolated transactions, the assessment of non-resident traders, and sur-tax on the undistributed income of companies. It is obvious from a perusal of the book that the authors have had considerable practical experience of the subjects with which they deal.

Incorporated Accountants' District Society of Notts, Derby & Lincoln.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of Nottingham, Derby and Lincoln was held at the Victoria Station Hotel, Nottingham, on January 22nd.

Mr. FRED A. PRIOR, F.S.A.A., President of the Society, was in the chair, and the assembly included the Lord Mayor of Nottingham (Alderman W. Green), His Honour Judge Hildyard, K.C., Sir Harold Bowden, G.B.E., Mr. E. Cassleton Elliott (Vice-President of the Society of Incorporated Accounts and Auditors), Mr. A. M. Lyons, M.P., Mr. L. H. Gluckstein, M.P., Mr. L. A. West (Official Receiver), Mr. Walter Clayton, A.S.A.A., Mr. E. H. Palmer, A.S.A.A., A.C.A., and Mr. Stanley I. Wallis, A.S.A.A. (Hon. Secretary).

The CHAIRMAN proposed the toast of "The City and Trade of Nottingham," and congratulated the Corporation on having modernised the city. The capital expenditure of Nottingham, he said, was £20,500,000. The *Kylsant* case had trained accountants and the investing public to look for a clearer statement of accounts, but in a financial paper that day he noticed that one of the "Big Five" published an abbreviated statement on their balance sheet concerning a figure of £385,850,461. He wondered what the self same bankers would say to them if they were to produce balance sheets with such omnibus headings. He went on to give an account of his examination of the Nottingham Corporation's abstract of accounts, pointing out that there was nothing to show exactly what the position was with regard to the cost of a new Exchange and the revenue from the lettings of shops, although there was an item of a fee of 2s. 6d. shown separately in connection with the City Aerodrome. The elective auditors of the city, he pointed out, were required under the Municipal Corporations Act to certify only that they had examined the cash book with the vouchers and that they appeared to be in order. He thought, however, that in a city with a capital of £20,500,000, and an income of £1,823,000 from its district rate, further verification should be required under the Municipal Corporations Act. Referring to the Nottingham "Gas case," Mr. Prior said the general public failed to realise what accountants knew to be a fact—that there was no system known to the most expert accountant that was an absolute safeguard against conspiracy from within or without. It was a sheer impossibility, and he thought the Gas Committee had been subject to a good deal of criticism which was absolutely unwarranted in that connection. With regard to the immunity of co-operative societies from taxation, he suggested that if it was justifiable it was also surely justifiable that Corporation departments, working for the benefit of the public, should be immune.

The LORD MAYOR OF NOTTINGHAM, responding, said that Nottingham was one of the finest cities in the kingdom, and its new Exchange was one of the finest buildings in the country. He wanted to see England go from better to better, and he was coming to the conviction that party politics were not going to save the country. He, as a trades union leader, wanted to impress upon Members of Parliament that if in the House they were to foster the spirit of co-operation whereby trade unionists and the masters of industry were brought closer together it would be a good thing for the country. It was sad to see people to-day agitating to strike because they were tired of

conditions, and it was even sadder to see the masters threatening lock-outs. The spirit of co-operation was vital.

Sir HAROLD BOWDEN, submitting the toast "The Society of Incorporated Accountants and Auditors," humorously compared the balancing feats of tight rope walkers and the balancing done by members of the company present. He took it, he said, that a special type of brain was required to take the multifarious items in cash books and ledgers from bad debts to directors' expenses, and persuade them to behave in such a way that in the end they obtained a perfect balance sheet, the noblest handiwork of man. It might be that they all found something mystical and wonderful in the other fellow's job, and possibly with all their skill there were not many of them who would be able to put together the internals of a three-speed hub. Speaking as a layman, he felt that business men owed a debt of gratitude to Incorporated Accountants, whom he compared with the family physicians. They came with their little black bags and ushered businesses into the world, nursed them through their infancy, tended them in sickness and in health, and of course when the time came for them to expire wrapped them in their winding sheets—or, in other words, wound them up. Judging from an account of Incorporated Accountants' obligations that he had read in their Journal, they were far more responsible for us than we are for ourselves. In their capacity as auditors, they occupied a delicate position between the devil and the deep sea, the deep sea being the shareholders, and the opposite number, he presumed, the chairman and the board of directors. Towards the devil it was their duty to maintain an attitude of polite but effective suspicion. He would like to be privileged to visit that secret school of fact—there must be such a place—where they were all trained to hide their scepticism behind such a charming air of innocence. His own auditors were so disarming as to make one feel that to hide a reserve from them would be like cruelty to children. (Laughter.) When it came to dealing with shareholders, auditors were enormously helpful. A questioner at an annual meeting, a real heckler who was prepared to lynch the whole board of directors, could usually be hushed into an awe-stricken approval by a mere mention of the auditors. (Laughter.) At the same time, it appeared it was the auditors and not the directors who were responsible for the true financial position to the shareholders. There was a case, as long ago as 1895, in which a dividend was paid out of capital and not out of income. The learned Judges, he was happy to record, held that the directors were innocent and that the auditor was liable to make good the amount of the dividend paid. (Laughter.) He had been wondering ever since he read of that case whether he could convince his auditors that they were liable for his income tax. (Laughter.) The fact about accountancy that must strike all business men of middle age was the great advance that has been made in the art, or science, in their own lifetime. Accountants certainly played a much bigger part in industry to-day than thirty years ago. He supposed it was the habit contracted in war-time of doing things on a grand scale that made men in commerce and industry realise how little they know of the financial details of their own business. As soon as they began to do things on a big scale details of costing became a matter of prime importance. The accountant helped the industrialist not merely by the technical work which he contributed himself, but by inducing a new attitude of mind in the business man towards all his problems of employment, purchase, sales and costings. The toast he would propose was: "That the time is at hand when we shall have made this mad world a place fit for accountants to live in." (Laughter.)

Mr. E. CASSLETON ELLIOTT, F.S.A.A., Vice-President of the Society of Incorporated Accountants and Auditors, responding to the toast, said he hoped Sir Harold Bowden's prophecy might come true and that this world would become a fit place for accountants to live in. The Society of Incorporated Accountants, according to the last Year Book, had a membership of 5,644. That was up to December 12th last. Since then there had been a few more added as a result of the last examination, so that the number was well over 5,700. The examination results showed that about 50 per cent. of the examinees—those who had worked very hard and assiduously at the various subjects—had passed. He would not like to say those who failed had not done so. It was not given to all to pass examinations at the first opportunity. A great many who failed, he was happy to say, passed at the second attempt. The education of the Incorporated Accountant was a very strenuous one. He was articled for five years. During that time he was engaged on the preparatory principles, and worked in his spare time for examinations, with a certain amount of time off before the examinations. They also had the University graduate. Their time was spent more strenuously, because they were only under articles for three years, and during that time they had to study for their Intermediate and Final examinations. But he would not like them to think the education stopped there, because as accountants they were studying constantly every kind of subject that affected them. In particular the *Kylsant* case was of very great interest to accountants, because it showed the need for more informative balance sheets and profit and loss accounts—profit and loss accounts particularly. The question was exercising the Council of the Society, with the result that a special committee had recently been set up to consider what steps, if any, should be taken for the alteration of the law in regard to accounts, and what steps of a voluntary nature, if any, could be devised for the members of the Society to show how they should deal with accounts in the future. He did not want to amplify that point because it was a matter for serious consideration, and he did not want to anticipate the findings of the committee. He thought, however, that the case had helped both directors and auditors. Directors were now approaching auditors and seeking advice. In the *Accountant* only that week, he pointed out, were two sets of accounts of different companies, set out side by side. That of a large public company gave very little information; while the other, that of a smaller company, gave very full information. The effect of the Kylsant case was that more information was being given to the public and to the shareholders, who really owned the company. During the last year or so many of the investing public had been shocked by prosecutions for frauds in regard to share transactions. These cases disturbed the public very seriously, so much so that they were really detrimental to investments in industrial enterprise. It was very difficult to know how that could be changed, for he did feel very seriously that there were certain cases which should be brought to light. He instanced the case of a client who, by giving him his confidence, was saved from the operations of a bucket shop (fortunately known to Mr. Elliott) by the issue of a writ and the return of his money a few days before the concern went into voluntary liquidation, the liabilities being many thousands of pounds. He thought it was their duty to do everything to help their clients. Their duties had not finished when they had signed the balance sheet. They must look through the balance sheet and suggest, whether asked to

or not, any improvement they thought possible. One of their chief duties was to help their clients in regard to taxes. In this matter he was happy to say their relations with the Board of Inland Revenue and their representatives were of a very harmonious nature. (Hear, hear.) They endeavoured to hold the balance equally between the taxpayer and the Revenue. This much the Revenue knew, and it did not disturb that harmonious relationship—they demanded and got all to which their client was entitled, and that was not done unless he went to a fully qualified accountant who knew how to deal with taxation. In conclusion, Mr. Elliott alluded to public economy, quoting Sir Ernest Benn's definition, "wise spending," and commenting that if all municipalities spent wisely there would not be the trouble in regard to municipal accounts and expenditure that there was to-day. (Applause.)

Mr. E. H. PALMER, A.S.A.A., A.C.A., proposing the toast of "The Bench and Bar," said the Bar Council was considering suggested reforms in the procedure and costs charged by the legal profession, put forward, he believed, by the London Chamber of Commerce. There was a further reform which he trusted the Bar Council would consider—the appointment of stipendiary magistrates in all the large centres. He was, however, appreciative of the great work done by voluntary magistrates and the sacrifices they made.

His Honour JUDGE HILDYARD, K.C., replied to the toast, and deprecated the suggestion that voluntary magistrates should be relegated to practically unimportant cases, since he thought they were the very people who were likely to take into account the needs of the criminal as well as those of the public. In dealing out sentences as a professional duty, one was apt to get a harder and more mechanical outlook than the person who did it occasionally.

Mr. WALTER CLAYTON, A.S.A.A., proposed the toast of "The Guests."

Mr. A. M. LYONS, M.P., who replied, supported Mr. Palmer's contention about the unpaid magistrate, declaring that while often there was no cause for complaint, there were times when it was necessary to criticise not merely the sentence, but also the way in which it was arrived at.

Mr. L. A. WEST, Official Receiver, Nottingham, submitted the toast of "The Chairman," to which Mr. PRIOR replied.

District Societies of Incorporated Accountants.

LONDON.

On February 16th Dr. E. Leslie Burgin, M.P., read a paper to the Society on "Problems of Nationalism and International Trade." Mr. Thomas Keens, F.S.A.A., presided, and there was a large attendance of members. A report of the paper, and of the subsequent discussion, will appear in a later issue.

BRADFORD.

Presentation to Mr. Herbert Reynolds, F.S.A.A.

The annual dance, arranged by the Students' Section of this Society, was held at Bradford on February 12th, when a presentation was made to the late Secretary of the District Society.

Mr. Albert E. Stringer (President) stated that when Mr. Herbert Reynolds recently gave up the Secretaryship, it was felt that his nineteen years' service called for special recognition, and a very pleasing response had been made to the suggestion of a gift to Mr. Reynolds. Mr. Percy Toothill, F.S.A.A. (Sheffield), a member of the Council, had come that evening to make the presentation.

Mr. Toothill expressed his pleasure in being at the gathering. He had known Mr. Herbert Reynolds for many years, and was in a position to appreciate fully his work for the Society. When Mr. Reynolds took office in 1912, the Bradford District Society numbered less than fifty members. It now numbered over three hundred—an increase due in no small measure to the work of Mr. Reynolds. On behalf of the Bradford District Society he handed to Mr. Reynolds a handsome mahogany bureau and bookcase. The bureau bore a plaque, engraved: "Presented to Mr. Herbert Reynolds, F.S.A.A., by the Members of the Incorporated Accountants' Bradford and District Society in appreciation of his services as Honorary Secretary for 19 years. February, 1932."

Mr. Reynolds, in reply, said that he had been an officer of the Society since its formation, and he had taken great pleasure in the work he had done on its behalf. He also referred to the great debt the Society owed to the late Mr. William Claridge, and thanked Mr. Toothill for his words of appreciation, and the members for the very handsome gifts.

SHEFFIELD.

On February 5th, a debate was held between representatives of the Students' Society and the qualified members. The subject was "That the law should be so amended as to permit sweepstakes to be organised for charitable purposes." Mr. Leslie Lewis, F.S.A.A., President of the Society, occupied the chair. Mr. Colin Thirsk (Student) moved the resolution, and was seconded by Mr. Arnold Graves (Student). The motion was opposed by Mr. E. R. Harrison, F.S.A.A., and Mr. P. Cardwell, A.S.A.A. After an interesting debate, the resolution was carried by a majority of two votes.

SOUTH WALES AND MONMOUTHSHIRE.

(CARDIFF AND DISTRICT STUDENTS' SECTION.)

The members of the Cardiff Students' Section met on January 28th, under the chairmanship of Mr. K. V. Stephens, A.S.A.A., when three short papers were delivered by members of the Society. Mr. E. Ewart Pearce, A.S.A.A. (Past Chairman), dealt with the particular duties arising in audits under the Friendly Societies Act and Industrial and Provident Societies Acts, and with specially authorised Loan Societies. Mr. K. S. Williams followed with a paper on "Economic Progress in relation to the Standard of Living," which evoked a lively discussion. The meeting concluded with a paper by Mr. W. I. Rodda, A.S.A.A. (Past Chairman), on "Preliminaries to the Commencement of Audit."

YORKSHIRE.

On February 16th Mr. Ronald Staples (Editor of *Taxation*) addressed the Incorporated Accountants' District Society of Yorkshire, at Leeds, on "Income Tax—Back Duty Cases." He dealt with the question of fines and penalties of taxpayers who were in default for past years' taxes, and the basis of settlement with the Commissioners of Inland Revenue. Mr. Alfred Walton, F.S.A.A., presided over a large gathering.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Scottish Branch—Presentation of President's Badge.

As briefly reported in our last issue, a meeting of the Council of the Scottish Branch was held in Glasgow on January 29th. There were present: Mr. J. Stewart Seggie, President of the Branch, Mr. R. T. Dunlop, Mr. W. Davidson Hall, Mr. J. A. Gough, Mr. Wm. Houston, Mr. P. G. S. Ritchie, Mr. J. Cradock Walker, and Mr. E. Hall Wight, Glasgow; Mr. Walter MacGregor, Mr. D. R. Matheson, LL.B., Edinburgh; Mr. E. Mortimer Brodie, Port Glasgow; Mr. J. T. Morrison, Coatbridge; Mr. W. L. Pattullo, Dundee; and Mr. James Paterson, Secretary of the Branch.

Apologies for absence were intimated from Mr. D. Hill Jack, J.P., Dr. John Bell, Mr. Archibald Macintyre, J.P., Mr. Alexander Davidson, and Mr. Donald M. Muir.

Before the commencement of the ordinary business, Mr. W. L. Pattullo, as the senior member of the Council present, rose and said that in the absence of the Vice-Presidents, it gave him great pleasure to accede to a suggestion of the Secretary that he should present to the Chairman, as President of the Society, a badge of office for use while he occupied that position. The Scottish Branch had managed to get along during its fairly long history without a badge for its President, but now it seemed to be the fashion for Branches and District Societies to have such a badge, and the Scottish Branch was not going to be behind with regard to this matter. The badge which had been chosen was a beautiful work of the jewellers' handicraft, and had the Society's coat-of-arms in the centre, surrounded appropriately by the Scottish thistle. In placing the badge in Mr. Seggie's hands as the first wearer, they were honouring one well worthy of it, who would wear it on the necessary occasions with dignity and credit to the Society and the Branch.

Mr. Seggie, in reply, said that he had first of all to acknowledge the kindly remarks of Mr. Pattullo. As President of the Branch he had followed Mr. Hill Jack, who had occupied the position for a very long time, and he had observed that, in gatherings of the Society, and other functions, the Presidents of most other Branches and District Societies had badges to distinguish them, and he felt that the Scottish Branch should fall into line. The beautiful badge with which Mr. Pattullo had just invested him would be carefully guarded in the interest of the Branch, and he would endeavour to hand it down to his successor with the dignity and credit referred to by Mr. Pattullo unimpaired.

Both Mr. Pattullo's and Mr. Seggie's remarks were received by the members present with approbation.

Under Insurance.

In a lecture given in Edinburgh last month by Mr. W. C. Reid, F.F.A., chief actuary of the Scottish Widows Fund and Life Assurance Society, at a meeting of the Insurance Society of Edinburgh, the question of under insurance in the light of information contained in the tables given in the yearly reports of the Inland Revenue was discussed. From the figures given in these reports it appeared that under insurance was not confined to any one section of the community, but was prevalent throughout, irrespective of income.

Currency and International Trade.

Some aspects of international trade were discussed by Professor F. W. Ogilvie, of Edinburgh University, in a lecture to the Economic Section of the Royal Philosophical Society of Glasgow. Professor Ogilvie claimed that the steadiness of prices in this country, of which so much had been heard in the Press and in the House of Commons, was a delusion. The steadiness, he said, was combined of two things, each of which had been moving fast: of sterling prices moving up and gold prices moving down. The future, the Professor said, would depend on the attitude of the rest of the "sterling group."

Arrestments Attaching Legitim.

An interesting case was decided last month by Lord Mackay in which a wife who had raised an action against her husband for adherence and aliment and obtained a decree therefor, used arrestments in the hands of the trustees of the father of her husband. The arrestments were used on April 23rd, 1931, and on July 8th, 1931, the husband had discharged both his right of legitim and his conventional provisions which had not vested. Lord Mackay granted decree of forthcoming in terms of the first alternative conclusion of the summons. His Lordship held that in the case of a non-vested and future *spes successionis* the attachment of it by arrestment was incompetent, but that the legitim fund was validly attached by the pursuer's arrestment, and that the subsequent deed of discharge by the pursuer was of no effect.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases* (*Scotland*); S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B.&C.R., *Bankruptcy and Company Cases*.

COMPANY LAW.

In re City of London Insurance Company.

Calls on B Contributories in Winding-up.

Where calls on the B contributories (past shareholders) of a company in liquidation have realised more than is required to pay the net amount for which such contributories are liable, though the total realised by all the calls and assets is not enough to pay the creditors in full, the B contributories are entitled to repayment of the surplus of the calls made on them.

(Ch.; (1932) 48 T.L.R., 169.)

Russian and English Bank v. Baring Bros. & Co., Limited.

Dissolution of Foreign Banking Company.

A bank incorporated in Russia being dissolved according to Russian law, the English branch sued in England in the name of the bank to recover moneys alleged to form part of the assets pertaining to the English branch.

It was held that, as the plaintiff bank no longer existed, the action must be dismissed.

(Ch.; (1932) 48 T.L.R., 193.)

Edinburgh Railway Accessories and Property Company v. Scottish Metropolitan Assurance Company.

Rights of Preference Shareholders.

A company asked the sanction of the Court in regard to a proposed scheme of arrangement involving alteration in the rights of preference shareholders. The scheme was approved by a majority of the shareholders, but the minority objected.

It was held by the Court of Session that, as doubts existed as to the proper construction of the Memorandum of Association in relation to the rights of shareholders, the Court was warranted in sanctioning the proposed scheme which would have the effect of removing existing doubts.
(S.C.; (1932) S.L.T., 49.)

MISCELLANEOUS.

B. S. Lyle, Limited, v. Chappell.

Memorandum of Moneylender's Contract.

The Court of Appeal held that sect. 6 of the Moneylenders Act, 1927, was not intended to render renewals of loans on altered terms impossible by requiring that a memorandum of the alteration should be signed before the original loan is made. When the time for repayment of the original loan has expired without complete repayment and the time for repayment is extended on altered terms, there is a fresh loan, and it is sufficient if the memorandum of the altered terms precedes the beginning of the extended period.
(C.A.; (1931) 48 T.L.R., 119.)

Jackson v. Morris.

Interest on Moneylender's Loan.

The Court of Session held (1) that a moneylender is not entitled to interest on a loan at a rate of more than 48 per cent. unless he proves that such higher rate is not excessive, having regard to the risk involved; (2) that the usage of the Court is to allow interest at 5 per cent. on moneylending transactions after the date of the decree until payment.
(C.S.; (1931) S.L.T., S.C.R., 39.)

English, Scottish and Australian Bank v. Inland Revenue.

Debts owing by Persons outside United Kingdom.

The appellants, a company incorporated in England, agreed to purchase the business and debts of the Royal Bank of Australia, a company incorporated in Melbourne. The question was whether these debts constituted property locally situate out of the United Kingdom within the meaning of sect. 59 (1) of the Stamp Act, 1891, and therefore exempt from stamp duty in the agreement for sale.

The House of Lords held that as the test of the situation of a simple contract debt was to be found in the place of residence of the debtor, the debts were locally situate in Australia, and out of the United Kingdom.
(H.L.; (1931) L.T.N., 509.)

REVENUE.

Thompson v. Trust and Loan Company of Canada.

Deduction of Tax from Coupon Interest.

A financial trust company purchased Treasury bonds cum coupon and simultaneously sold the same amount ex coupon. They cashed the coupons next to be paid, receiving the interest due, less income tax, which was deducted under Schedule C.

It was held by the Court of Appeal, affirming the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, September, 1931, p. 356), that the company were not bound to bring the balance of interest into account as a profit or gain taxable under Schedule D.
(C.A.; (1932) 48 T.L.R., 209.)

Westminster Bank Limited v. Osler.

Conversion of War Bonds.

A bank exercised the right of converting certain war bonds into longer term securities which were of greater value than the bonds.

It was held by the Court of Appeal that in substance there had been a realisation of the bonds at a profit which was assessable to income tax.
(C.A.; (1932) 48 T.L.R., 211.)

Hillerns & Fowler v. Murray.

Evidence of Trading.

A firm which had dissolved partnership was assessed to income tax in respect of profits alleged to have been made by it during the twelve months following the notice of dissolution, and the firm appealed against the assessment on the ground that what had been done after the notice of dissolution was merely the process of liquidating the assets. The Special Commissioners found that the firm was trading during the twelve months in question, and they confirmed the assessment.

It was held by the Court of Appeal, reversing the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, October, 1931, p. 36), that there was evidence to support the finding of the Special Commissioners, and their decision must be affirmed.
(C.A.; (1932) T.L.R., 213.)

Inland Revenue Commissioners v. A. & G. Anderson.

Succession to Trade.

By Rule 11 of Cases I and II of Schedule D of the Income Tax Act, 1918, it is provided that where a person succeeds to a trade or business, the tax payable in respect of that person shall be computed according to the profits or gains of the trade during the period prescribed by the Act, notwithstanding the succession, unless the person succeeding proves "that the profits or gains have fallen or will fall short from some specific cause since such succession took place."

The House of Lords held that the cessation of the coal strike of 1926 in December of that year was a "specific cause" within the meaning of the rule.
(H.L.; (1931) 48 T.L.R., 126.)

Crook v. Seaham Harbour Dock Company.

Government Grant to Relieve Unemployment.

The House of Lords, in affirming the decision of the Court of Appeal (see *Incorporated Accountants' Journal*, February, 1931, p. 204), held that where a dock company had received a Government grant equivalent to half the interest on certain loans to the company for a period of two years, the grant being made to assist the company in carrying out useful work for the relief of unemployment, the grant was not a trade receipt and was not liable to income tax.
(H.L.; (1931) 48 T.L.R., 91.)

Attorney-General v. Lewis & Burroughs, Limited.

Stamp Duty.

A substance, described as "vapour rub," and recommended on the wrapper for chest and throat complaints, was sold by the defendants, who were retail chemists, without its bearing the stamp required by the Medicines Stamp Act, 1812. The defendants had ordered the article to be specially made up for them by other persons according to a formula to be found in the *Pharmaceutical Formulas* under the name "Chest Vapour Rub.'

It was held that though the article was ordered the transaction between the defendants and the persons who made it up for them was a sale, and therefore the defendants were not "the original or first vendors" within one of the limitations of the exemptions of the Schedule to the Act, but that the article was not a preparation of which, within the exemptions in the Schedule, "the different denominations, properties, virtues and efficacies" were "known, admitted, and approved of," since the properties of "vapour rub" *simpliciter* were not known and approved by reason of the knowledge and approval of those of "Chest Vapour Rub," unless it was known that the two articles were the same; and therefore the defendants were liable to a penalty of £10.
(K.B.; (1931) W.N., 257.)